Supreme Court, U.S.
FILED
02 - 39 JUL - 3 2002
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No. 02-___

IN THE

Supreme Court of the United States

Micrel, Inc.,
Petitioner,

v.

Linear Technology Corp.

On Petition for a Writ of Certiorari
to the United States Court of Appeals
for the Federal Circuit

PETITION FOR A WRIT OF CERTIORARI

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July 3, 2002

WILSON-EPES PRINTING CO., INC. – (202) 789-0096 – WASHINGTON, D. C. 20001

108 pg

QUESTION PRESENTED

The Patent Act precludes the issuance of a patent if "the invention was * * * on sale in this country, more than one year prior to the date of the application for patent." 35 U.S.C. 102(b). Since the 1800s, the federal courts have uniformly held that this "on-sale bar" is triggered by the inventor's "commercial marketing" of his invention, such as through advertising and the solicitation of orders from customers. This doctrine prevented inventors from exploiting their inventions through commercial activity without promptly filing a patent application.

The Question Presented is whether the Federal Circuit erred in abrogating the settled understanding that the on-sale bar of 35-U.S.C. 102(b) arises from commercial marketing of an invention in favor of a test that limits the bar only to circumstances in which the inventor has made a "formal offer" for sale, *i.e.*, an offer which "the other party could make into a binding contract by simple acceptance."

TABLE OF CONTENTS

QUESTION PRESENTED i
TABLE OF CONTENTS ii
TABLE OF AUTHORITIES iii
PETITION FOR A WRIT OF CERTIORARI 1
OPINIONS BELOW 1
JURISDICTION 1
RELEVANT STATUTORY PROVISION 1
STATEMENT 1
REASONS FOR GRANTING THE WRIT 10
I. The Federal Circuit's New Legal Standard Under Section 102(b) Conflicts with a Long-Standing, Uniform Line of Precedent. 10
II. The Federal Circuit's New Legal Standard Conflicts with This Court's Precedents and the Purposes of the On-Sale Bar. 18
III. This Case Presents The Ideal Vehicle To Resolve The Question Presented. 26
CONCLUSION 28

TABLE OF AUTHORITIES

Cases

3D Sys. v. *Aarotech Labs.*, 160 F.3d 1373 (CAFC 1998) 20
American Can Co. v. *Crown Cork & Seal Co.*, 693 F.2d 653 (CA7 1982) 14
Amphenol Corp. v. *General Time Corp.*, 397 F.2d 431 (CA7 1968) 13, 25
Andrews v. *Hovey*, 123 U.S. 267 (1887) 24
Architectural Metal Sys., Inc. v. *Consol. Sys., Inc.*, 58 F.3d 1227 (CA7 1995) 21
B.F. Goodrich Co. v. *Aircraft Braking Sys. Corp.*, Nos. 91-48/91-515-SLR, 1994 U.S. Dist. LEXIS 21537 (D. Del. Nov. 10, 1994) 16
Bonito Boats v. *Thunder Craft Boats*, 489 U.S. 141 (1989) 4, 25
Carborundum Co. v. *Combustion Eng'g*, 505 F. Supp. 1011 (D. Del. 1981) 15
Critikon, Inc. v. *Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253 (CAFC 1997) 11
CTS Corp. v. *Piher Int'l Corp.*, 527 F.2d 95 (CA7 1975) 22
D.L. Auld Co. v. *Chroma Graphics Corp.*, 714 F.2d 1144 (CAFC 1983) 12
Datapoint Corp. v. *Picturetel Corp.*, No. 98-1341, 1999 U.S. App. LEXIS 15786 (CAFC July 15, 1999) 12
Elizabeth v. *Am. Nicholson Pavement Co.*, 97 U.S. 126 (1878) 4, 19
Evans Cooling Sys. v. *GMC*, 125 F.3d 1448 (CAFC 1997) 24
George R. Churchill Co. v. *American Buff Co.*, 365 F.2d 129 (CA7 1966) 13
Graham v. *John Deere Co.*, 383 U.S. 1 (1966) 3
Group One v. *Hallmark Cards*, 254 F.3d 1041 (CAFC 2001), *cert. denied*, 122 S. Ct. 1063 (2002) .... passim

Handgards, Inc. v. *Ethicon, Inc.*, 743 F.2d 1282 (CA9 1984) 14
Helifix Ltd. v. *Blok-Lok, Ltd.*, 26 F. Supp. 2d 294 (D. Mass. 1998), *rev'd on other grounds*, 208 F.3d 1339 (CAFC 2000) 17
Holmes Gp. v. *Vornado Air Circ. Sys.*, 122 S. Ct. 1889 (2002) 2, 11
Kabil Developments Corp. v. *Mignot*, 566 P.2d 505 (Ore. 1977) 21
Kalvar Corp. v. *Xidex Corp.*, 384 F. Supp. 1126 (N.D. Cal. 1973) 16
Klocek v. *Gateway, Inc.*, 104 F. Supp. 2d 1332 (D. Kan. 2000) 25
Kock v. *Quaker Oats Co.*, 681 F.2d 649 (CA9 1982) 23, 24
L.F. Strassheim Co. v. *Gold Medal Folding Furniture Co.*, No. 64-C-74, 1971 U.S. Dist. LEXIS 11001 (E.D. Wis. Nov. 1, 1971) 16, 25
Lubrizol Corp. v. *Exxon Corp.*, No. 90-1151, 1991 U.S. App. LEXIS 2759 (CAFC Feb. 21, 1991) 12
Metallizing Engineering Co. v. *Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516 (CA2 1946) 20
Milkovich v. *Lorain Journal Co.*, 497 U.S. 1 (1990) 19
Minnesota Mining & Manufacturing Co. v. *Kent Industries*, 409 F.2d 99 (CA6 1969) 12, 13
National Bus. Sys. v. *AM Int'l*, 743 F.2d 1227 (CA7 1984) 14
Nickel v. *Theresa Farmers Coop. Ass'n*, 20 N.W.2d 117 (Wis. 1945) 21
Paragon Podiatry Lab. v. *KLM Labs.*, 984 F.2d 1182 (CAFC 1993) (per curiam) 24
Pfaff v. *Wells Electronics*, 525 U.S. 55 (1998) ..... passim
Philco Corp. v. *Admiral Corp.*, 199 F. Supp. 797 (D. Del. 1961) 15

Plimpton v. *Winslow*, 14 F. 919 (Cir. Ct. D. Mass. 1883) 4, 11
RCA Corp. v. *Data General Corp.*, 887 F.2d 1056 (CAFC 1989) ..... passim
Red Cross Manufacturing Corp. v. *Toro Sales Co.*, 525 F.2d 1135 (CA7 1975) 13, 14
Rich Prods. Corp. v. *Kemutech, Inc.*, 66 F. Supp. 2d 937 (E.D. Wis. 1999) 21
Robbins Co. v. *Lawrence Mfg. Co.*, 482 F.2d 426 (CA9 1973) 15
Rotec Indus. v. *Mitsubishi Corp.*, 215 F.3d 1246 (CAFC 2000) 20
Shatterproof Glass Corp. v. *Libbey-Owens Ford Co.*, 758 F.2d 613 (CAFC 1985) 16
Special Devices v. *OEA, Inc.*, 270 F.3d 1353 (CAFC 2001) 24
Strong v. *General Electric Co.*, 434 F.2d 1042 (CA5 1970) 13
Theis, In re, 610 F.2d 786 (USCCPA 1979) 15
Timely Prods. Corp. v. *Arron*, 523 F.2d 288 (CA2 1975) 26
Woodland Trust v. *Flowertree Nursery*, 148 F.3d 1368 (CAFC 1998) 22

Statutes

28 U.S.C. 1295(a)(1) 2
35 U.S.C. 101 3
35 U.S.C. 102(a) 4
35 U.S.C. 103 3
35 U.S.C. 271(a) 20
Act of July 4, 1836, ch. 356, § 6, 5 Stat. 117, 119 23
Act of March 3, 1839, ch. 88, § 7, 5 Stat. 353, 354 23
U.S. Const. art. I, § 8, cl. 8 3

Other Authorities

1 ARTHUR CORBIN, CORBIN ON CONTRACTS (1993) 21
12 AM. JUR., CONTRACTS § 28 21
CHISUM ON PATENTS 11, 22
H.R. Rep. No. 961, 76th Cong., 1st Sess. (1939) 23
S. Rep. No. 876, 76th Cong., 1st Sess. (1939) 23
United States Patent and Trademark Office, Manual of Patent Examining Procedure (2000) 11, 13, 15

PETITION FOR A WRIT OF CERTIORARI

Petitioner Micrel, Inc. respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The opinion of the court of appeals (*infra* at 1a-26a) is reported at 275 F.3d 1040. The opinion of the district court (*infra* at 27a-72a) is reported at 63 F. Supp. 2d 1103.

JURISDICTION

The court of appeals entered its judgment on December 28, 2001 and denied rehearing and rehearing *en banc* on February 22, 2002 (*infra* at 73a). The Chief Justice subsequently extended the time within which to file a petition for a writ of certiorari to and including July 3, 2002. App. No. 01-888. This Court has jurisdiction under 28 U.S.C. 1254(1).

RELEVANT STATUTORY PROVISION

Title 35, Section 102(b) provides in relevant part that "[a] person shall be entitled to a patent unless the invention was * * * on sale in this country, more than one year prior to the date of the application for patent in the United States." 35 U.S.C. 102(b).

STATEMENT

This case presents this Court with an ideal opportunity, and perhaps the only opportunity, to resolve a vital and recurring question under the federal patent laws. No patent may issue in this country if the invention was "on sale" more than one year before the inventor filed the patent application. 35 U.S.C. 102(b) ("Section 102(b)"). Since the 1800s, the federal courts have uniformly held, in decision after decision, that this "on-sale bar" is triggered by "commercial marketing" of the invention. The Federal Circuit, however, has now avowedly overturned the commercial marketing doctrine to

hold that the bar is triggered only by a technical "commercial offer for sale," *i.e.*, an offer that a customer can turn into a binding contract by mere acceptance. The difference between those two standards is *critical*, as this case illustrates perfectly. An inventor is now utterly free to exploit his invention through advertising, market testing, building consumer demand, and soliciting orders from customers without any obligation to apply for a patent. The inventor may study the market and stockpile orders from customers – all the while maintaining his monopoly on the invention – awaiting the day he is ready, willing, and able to begin distribution of his product. And then he may wait a further year to apply for a patent. The Federal Circuit's rule thus contravenes bedrock principles of patent law by, for the first time, permitting an inventor unilaterally to extend the monopoly term of his patent during his commercial exploitation, and thereby remove existing knowledge from use by the public.

Only this Court can restore a proper interpretation of federal patent law. The Federal Circuit deemed itself bound to overturn the settled commercial marketing doctrine based on dictum in this Court's decision in *Pfaff* v. *Wells Electronics*, 525 U.S. 55 (1998), a case that concerned an entirely different issue: whether an invention must be "reduced to practice" before the on-sale bar applies. Reflecting its view that Supreme Court precedent is determinative, the Federal Circuit has twice denied rehearing *en banc* to reconsider its error in holding that commercial exploitation of an invention does not trigger the obligation to seek a patent.

Moreover, later cases will be far less suited as vehicles to decide the question presented. As a consequence of the Federal Circuit's exclusive jurisdiction over the patent laws (see *Holmes Gp.* v. *Vornado Air Circ. Sys.*, 122 S. Ct. 1889 (2002); 28 U.S.C. 1295(a)(1)), there not only can never be a circuit conflict over the question presented, but there also likely will never be another case in which the competing legal

standards are so plainly outcome determinative. Here, the district court held for petitioner on the basis of respondent's extensive commercial marketing, and the Federal Circuit expressly acknowledged that the district court's decision was correct under then-longstanding law. By contrast, the suitability of subsequent cases to decide the question presented will be seriously clouded by the absence of critical fact-finding on the issue of the defendant's commercial marketing, which was the *sine qua non* of the on-sale bar under prior precedent but is now irrelevant under the new Federal Circuit precedent, which is binding nationwide.

Finally, it is essential to decide the question presented now. Inventors, in reliance on the Federal Circuit's ruling, will defer securing patents until a year after they make a formal offer or complete a sale. A subsequent ruling by this Court returning the on-sale bar to its longstanding pre-*Group One* interpretation could work substantial injustice for those inventors and, at the least, would invite considerable costly and time-consuming litigation over whether various patents were invalid as a result of commercial marketing.

Certiorari accordingly should be granted.

1. The Constitution empowers Congress to "secure[e] for limited Times to * * * Inventors the exclusive Right to their * * * Discoveries" in order "[t]o promote the Progress of Science and useful Arts." U.S. Const. art. I, § 8, cl. 8. Under the Patent Act, "patentability is dependent upon three explicit conditions: novelty and utility as articulated and defined in § 101 and § 102, and nonobviousness * * *, as set out in § 103." *Graham* v. *John Deere Co.*, 383 U.S. 1, 12 (1966). The Act thus generally permits the issuance of a patent for "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof." 35 U.S.C. 101. A patent may not issue, however, if "the subject matter [of the invention] as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art." *Id.* § 103.

This case arises under Section 102 of the Patent Act, which concerns the "novelty" of the invention. 35 U.S.C. 102 (title). "Sections 102(a) and (b) operate in tandem to exclude from consideration for patent protection knowledge that is already available to the public. They express a congressional determination that the creation of a monopoly in such information would not only serve no socially useful purpose, but would in fact injure the public by removing existing knowledge from public use." *Bonito Boats* v. *Thunder Craft Boats*, 489 U.S. 141, 148 (1989). Section 102(a) thus provides that no patent will issue if "the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof." 35 U.S.C. 102(a). Section 102(b) grants the inventor a one-year grace period to apply for a patent in other circumstances: when the invention has been "patented or described in a printed publication in this or a foreign country or in public use or *on sale* in this country." *Id.* § 102(b) (emphasis added).

A recurring issue under the patent laws is the degree of commercial activity by the inventor required to trigger Section 102(b)'s "on-sale" bar. More than a century ago, this Court established that an inventor would lose his right to a patent if he made "[a]ny attempt to use [the invention] for a profit." *Elizabeth* v. *Am. Nicholson Pavement Co.*, 97 U.S. 126, 137 (1878). The federal courts have since then held that the commercial exploitation of an invention triggers the on-sale bar. See, *e.g.*, *Plimpton* v. *Winslow*, 14 F. 919, 920-21 (Cir. Ct. D. Mass. 1883) (Lowell, C.J.) (holding that on-sale bar invalidated one of the original patents for roller skates because inventor had distributed a "price-list"). As the Federal Circuit subsequently summarized the law in *RCA Corp.* v. *Data General Corp.*, 887 F.2d 1056, 1062 (1989) ("*RCA*"), although "a definite offer to sell is an essential requirement of the on-sale bar," "the requirement of a *definite* offer excludes merely indefinite or nebulous discussion about a possible sale." *Id.* (emphasis in original). Thus, according

to the *RCA* court, the on-sale bar may be triggered by "a patentee's commercial activity which does not rise to the level of a formal 'offer' under contract law principles." *Id.*

This case arises because the Federal Circuit recently overturned the long-settled rule that commercial marketing of an invention triggers the on-sale bar. The court held instead that "[o]nly an offer which rises to the level of a commercial offer for sale, one which the other party could make into a binding contract by simple acceptance (assuming consideration), constitutes an offer for sale under § 102(b)." *Group One* v. *Hallmark Cards*, 254 F.3d 1041, 1048 (2001), *cert. denied*, 122 S. Ct. 1063 (2002). On the basis of this "new legal standard," the Federal Circuit held in this case that respondent's patent was valid notwithstanding respondent's extensive marketing activities more than one year before it applied for a patent.

2. Respondent Linear Technology brought this suit alleging that petitioner Micrel, Inc. infringed respondent's patent ("the '741 patent") for an "adaptive transistor drive circuit." Petitioner asserted the on-sale bar as a defense and the district court bifurcated that issue for a separate trial. Respondent had applied for a patent on November 18, 1986, making November 18, 1985 the so-called "critical date" for purposes of the one-year grace period of Section 102(b). After a four-day bench trial, the district court made extensive findings of fact and held that the asserted claims of the '741 patent were invalid based on respondent's activities before the critical date in two respects: (i) Linear formally "offered to sell" a product called the "LT1070," which incorporated the '741 patent (Pet. App. 70a), and (ii) in any event, Linear "was actively promoting the LT1070 beyond the making of mere preparations for its sale" (*id.* 69a).

The district court reached the latter conclusion – that the on-sale bar applied because of respondent's extensive commercial exploitation of the '741 patent prior to the critical date – based on the settled commercial marketing doctrine,

acknowledged by the Federal Circuit in *RCA*, *supra*, under which "[a]n invalidating 'offer to sell' may occur as a result of the 'patentee's commercial activity which does not rise to the level of a formal 'offer' under contract law principles." Pet. App. 67a (quoting *RCA*, 887 F.2d at 1062). The district court also recognized that this Court's subsequent decision in *Pfaff*, *supra*, supported that standard, for *Pfaff* concluded that "a commercial offer of sale occurs 'when an invention that is ready for patenting is first marketed commercially.'" Pet. App. 65a-66a (quoting *Pfaff*, 525 U.S. at 67).

The district court held respondent's patent invalid because the record established by "clear and convincing evidence" (Pet. App. 72a) that respondent engaged in extensive commercial marketing prior to the critical date. Respondent's pre-critical-date marketing was essential to ensuring the LT1070's commercial success because respondent had to secure "design-ins for the LT1070" (*id.* 69a), which is the "process of getting a design engineer at a company to use a component product in one of the engineer's applications" (*id.* 34a). As one of respondent's sales representatives testified, securing such design-ins is necessary "in order to sell a product of a company like [respondent]." *Id.*

Respondent's marketing activities included "the publication of data sheets and other promotional materials." Pet. App. 69a. The district court also found that respondent engaged in substantial "communications with its sales force," including at a "sales conference attended by" international distributors who were customers of respondent, "the issuance of the November *Newsline* promising that the LT1070 will be a 'big hit,' and seminars conducted by [respondent's] inventor, Carl Nelson, during which he described the LT1070 directly to end-user customers." *Id.*

Perhaps most important, respondent "also clearly provided its sales force and end-user customers with critical information regarding the LT1070 in order to generate

commercial interest in the LT1070 and expected its sales force to discuss the LT1070 and its functions with end-user customers. Sales personnel at [respondent's distributors] contacted end-user customers and provided them with preliminary LT1070 data sheets in order to seek design-ins for the LT1070." Pet. App. 69a. "[T]hese discussions resulted in 26 separate requests for LT1070 samples from its domestic and international sales force between July 17, 1985, the date of the sales conference, and the critical date, clearly demonstrating that [respondent's] sales force was *actively promoting* the LT1070 to end-user customers." *Id.* 69a-70a (emphasis added).

The district court accordingly held "that [petitioner] has met its burden to prove by clear and convincing evidence that the LT1070 was on sale prior to the critical date of November 18, 1995," and held "for [petitioner] on its section 102(b) defense." *Id.* at 72a.

3. While respondent's appeal of the district court's decision was pending, the Federal Circuit held in *Group One*, *supra*, that dictum in this Court's decision in *Pfaff*, *supra*, had implicitly overruled the longstanding commercial marketing doctrine. *Pfaff* had nothing to do with whether marketing activities trigger the bar – not only was it undisputed in that case "that [a commercial] offer had been made," but the product had actually been *sold* prior to the critical date. 525 U.S. at 67. The question in *Pfaff* was instead whether the Federal Circuit had erred in holding that an invention can be "on sale" notwithstanding that it had not been "reduced to practice," *i.e.*, physically produced. *Id.* at 60. This Court rejected the Federal Circuit's standard and held that the bar may be triggered at the point the invention is "ready for patenting," *i.e.*, when the inventor has "prepared drawings or other descriptions of the invention * * * sufficiently specific to enable a person skilled in the art to practice the invention." *Id.* at 67-68.

The Federal Circuit in *Group One* nonetheless found it decisive that *Pfaff* articulated a two-part test for applying the on-sale bar: "First, the product must be the subject of a commercial offer for sale"; "Second, the invention must be ready for patenting." 525 U.S. at 67. The court of appeals opined that, although not actually "presented" in *Pfaff*, the "language used" by this Court in articulating the first prong of its test "strongly suggests that the offer must meet the level of an offer for sale in the contract sense, one that would be understood as such in the commercial community." 254 F.3d at 1046. On that basis, the Federal Circuit held in *Group One* that the commercial marketing doctrine was overruled and replaced by the following test: "Only an offer which rises to the level of a commercial offer for sale, one which the other party could make into a binding contract by simple acceptance (assuming consideration), constitutes an offer for sale under § 102(b)." *Id.* at 1048. This determination, the court held, must be made by reference to the contracting principles set forth in the Uniform Commercial Code ("UCC"). *Id.* at 1047.

4. Applying its *Group One* decision in this case, the Federal Circuit reversed the district court's determination that respondent's '741 patent was invalid under the on-sale bar. Characterizing respondent's pre-critical-date activities as a "marketing blitzkrieg" (Pet. App. 4a), the Federal Circuit expressly "*agree[d]* with the district court that [respondent's] activities would have triggered the on-sale bar under the law as enunciated in *RCA*" (*id.* 12a (emphasis added)), which "held that commercial activity not rising to the level of a formal offer for sale could trigger the on-sale bar" (*id.* 7a). The panel in this case furthermore expressed doubts that *Pfaff* either purported to, or had cause to, overrule that longstanding rule, because the facts of *Pfaff* and the question presented "did not require the [Supreme] Court to decide what constitutes an offer for sale in the absence of an actual sale." *Id.* 10a. But the panel recognized it was bound by

Group One, which "changed the analysis" governing the on-sale bar and adopted a "new legal standard." *Id.* 2a.

The practical distinction under *Group One*, the panel explained in this case, is whether marketing activities constitute a formal "offer" or instead "'an invitation for offers'" to be submitted by customers. Pet. App. 16a (quoting *Group One*, 254 F.3d at 1048). "[A]n advertisement," for example, falls into the latter category and does not trigger the on-sale bar. *Id.* 15a. Based on that distinction, the panel in this case held, "as a matter of law," that "none of the pre-critical date communications between [respondent] and its sales representatives or between the sales representatives and customers rose to the level of an offer for sale that would form a contract if accepted." *Id.* 17a. It thus made no difference that, as the district court had found as a matter of fact, respondent "disseminate[ed] advertising materials and other information about the LT1070 to customers * * * both orally * * * and in writing" (*id.* 15a), "contacted end-user customers and provided them with data sheets 'in order to seek design-ins'" (*id.* 16a (quoting district court)), and generally "communicated with customers" as evidenced by "the numerous requests for samples made by sales representatives" (*id.* 17a). None of these activities, the Federal Circuit explained, "rose to the level of an offer for sale that would form a contract if accepted." *Id.*

The panel in this case furthermore held that *Group One* precluded the district court's holding that respondent's receipt and stockpiling of customers' purchase orders, which had been generated by respondent's extensive commercial marketing, triggered the on-sale bar. The court of appeals explained that "it is undisputed that the purchase orders submitted by [respondent's] foreign distributors were offers to buy the LT1070": "The purchase orders contained sufficiently definite terms to create an enforceable contract upon acceptance under the UCC; they included quantity terms and clearly identified the requested product: the LT1070." Pet. App. 18a. The panel nonetheless held it was critical

under *Group One* that respondent had not objectively "accepted" its customers' orders, but rather had placed those orders in its own computer system with a "will-advise notation" pending the date on which the LT1070 was formally "released." *Id.* 21a. It thus made no difference either that respondent "privately intended to accept the offers" because "it thought the will-advise notation meant * * * just a delay in shipping" (*id.* 20a, 22a), or that "no further communication from the distributors was required before [respondent] transformed the 'will advise' orders to 'normal orders' and shipped them to the buyers" (*id.* 22a).

5. After the Federal Circuit denied rehearing and rehearing *en banc*, this petition followed.

REASONS FOR GRANTING THE WRIT

The petition for certiorari should be granted for three reasons. *First*, the Federal Circuit has abrogated an important and settled doctrine under the patent laws, in conflict with decisions of numerous other courts of appeals, subverting the underlying policy of the on-sale bar. *Second*, the Federal Circuit rested its decision on a profound misunderstanding of dictum in one of this Court's decisions – *Pfaff* v. *Wells Electronics*, 525 U.S. 55 (1998) – such that only this Court can return the law to its proper meaning. *Third*, the question can arise with respect to almost any of the more than 300,000 patent applications that are filed every year and this case presents an ideal vehicle to decide the question presented.

I. The Federal Circuit's New Legal Standard Under Section 102(b) Conflicts with a Long-Standing, Uniform Line of Precedent.

1. The court of appeals' decision in this case conflicts with an uninterrupted line of federal court decisions applying the on-sale bar. This conflict between the Federal Circuit's decision and the earlier decisions of the regional circuits and other federal courts demonstrates a close and important question of law requiring this Court's intervention. The

Court's practice of reviewing Federal Circuit decisions when "other courts have held or assumed" the contrary (*Pfaff* v. *Wells Electronics*, 525 U.S. 55, 60 (1998)), recognizes that conflicts between the Federal Circuit's decisions and those of other circuits on "patent issues" are "useful in identifying questions that merit this Court's attention" (*Holmes Gp.* v. *Vornado Air Circulation Sys.*, 122 S. Ct. 1889, 1897-98 (2001) (Stevens, J., concurring in part and concurring in the judgment)). See CHISUM ON PATENTS § 6.02 ("[P]re-1983 decisions of the regional circuits will continue to carry weight with the Supreme Court when it considers issues of patent law.").

As early as 1883, the court in *Plimpton* v. *Winslow*, 14 F. 919, 920-21 (Cir. Ct. D. Mass. 1883) held that the on-sale bar invalidated one of the first patents for roller skates because the inventor had distributed a "price-list." More recent authority is reflected in the Manual of Patent Examining Procedure ("MPEP"), which is issued by the U.S. Patent and Trademark Office and, while not binding authority, is a principal source of guidance on federal patent law. *Critikon, Inc.* v. *Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253, 1257 (CAFC 1997). As the MPEP explains (notably quoting the Federal Circuit's now-overruled *RCA* decision), the on-sale bar seeks "to obtain widespread disclosure of new inventions to the public via patents as soon as possible," and is "meant to prevent the inventor from commercially exploiting the exclusivity of his [or her] invention substantially beyond the statutorily authorized period." MPEP § 2133.03 (2000) (quoting *RCA Corp.* v. *Data Gen. Corp.*, 887 F.2d 1056, 1062 (CAFC 1989)). Indeed, the MPEP includes an entire section, entitled "There Must Be No Attempt at Market Penetration Before the Critical Date," devoted to the proposition that "commercial exploitation" triggers the on-sale bar. See *id.* § 2133.03(e)(1) (collecting cases). The MPEP explains that "commercial exploitation" should be measured principally by "the subjective intent of the inventor as manifested through objective evidence." *Id.*

Notably, many of the objective factors identified by the MPEP are present in this case – *e.g.*, "[p]reparation of various contemporaneous 'commercial' documents"; and "[a]dvertising in publicity releases, brochures, and various periodicals." *Id.* Clearly, respondent's activities are "commercial exploitation" under the MPEP.

2. Prior to *Group One*, the Federal Circuit treated as settled that the on-sale bar is triggered by commercial exploitation, notwithstanding the absence of a technical offer for sale. In addition to expressly so holding in *RCA*, *supra*, the court held in *D.L. Auld Co.* v. *Chroma Graphics Corp.*, 714 F.2d 1144, 1148 (1983), that the bar was triggered by instances in which the patentee "submitted [samples] to prospective customers" in order to generate interest so that it could "tool up" for commercial production.[1]

Federal circuit law echoed the decisions of the regional courts of appeals. Thus, in *Minnesota Mining & Manufacturing Co.* v. *Kent Industries*, 409 F.2d 99, 100 (1969), the Sixth Circuit held that "a substantial sales program" in which "samples were distributed to the [product] salesmen" and then presented to potential customers triggered the on-sale bar. Although neither the district court nor the court of appeals found that a firm offer had been accepted or even made, the plaintiff's "promotional activities" amounted

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[1] This interpretation was so well-settled that the Federal Circuit continued to apply it in unpublished decisions. See *Datapoint Corp.* v. *Picturetel Corp.*, No. 98-1341, 1999 U.S. App. LEXIS 15786, at *4-*5 (July 15, 1999) (subsequent to *Pfaff* v. *Wells*, *supra*, affirming district court's determination that, when the patentee demonstrated the item in question "to potential customers," it "thus was the subject of a commercial offer for sale"); *Lubrizol Corp.* v. *Exxon Corp.*, No. 90-1151, 1991 U.S. App. LEXIS 2759, at *4 (CAFC Feb. 21, 1991) (holding that "letters written by sales representatives indicating suggested uses for the material, customer meetings with sales representatives, quotations of prices and delivery terms, and samples to develop customer familiarity" were sufficient "indicia of commerciality" to conclude that the product was on sale before the critical date).

to placing the patented product on sale. *Id.* Similarly, the Fifth Circuit held in *Strong* v. *General Electric Co.*, 434 F.2d 1042 (1970), that the bar applied when the patentee delivered samples of the product "so that [a potential buyer] could use them and, hopefully, add the [product] to the company's approved equipment list." *Id.* at 1044 (adopting and quoting from the district court's opinion). The *Strong* court rejected the patentee's argument that the product was not on sale because "the [samples] were given – not sold" to the potential buyer. *Id.* Although the product may not have been sold to the customer pursuant to an accepted formal offer, the fact that the samples were distributed as part of "efforts to sell" the product was enough to trigger the bar. *Id.*

The conflict between the Federal Circuit's new Section 102(b) standard and decisions of other courts of appeals is perhaps most apparent, though, from an examination of an uninterrupted line of Seventh Circuit precedent applying the commercial marketing doctrine. In *George R. Churchill Co.* v. *American Buff Co.*, 365 F.2d 129, 133 (1966), that court held that the distribution of samples to both salesmen and potential customers "accompanied by claims of product superiority and a quotation of maximum prices" amounted to placing the patented product on sale. According to the court, "the use made of the [samples] by plaintiff's distributors at its solicitation smacks more of a testing of the market for product acceptance rather than a testing of the buff in an experimental use." *Id.* at 134.

Similarly, in *Amphenol Corp.* v. *General Time Corp.*, 397 F.2d 431 (1968), *cited in* MPEP § 2133.03(e)(1), the Seventh Circuit held that the on-sale bar is triggered by the distribution of samples to a potential buyer. The court found that the bar applies to "activity by the inventor or his company in attempting to sell the patented idea" (*id.* at 433), though such activity may neither amount to nor even lead to an actual sale. The Seventh Circuit subsequently relied on *Amphenol* in *Red Cross Manufacturing Corp.* v. *Toro Sales Co.*, 525 F.2d 1135 (1975), *cited in* MPEP § 2133.03(e)(1),

to conclude that "actions which are found commercially to exploit an invention prior to the critical date require a finding of an 'on sale' bar" (*id.* at 1140), even when those actions do not rise to the level of a formal offer. In *Red Cross*, the court found that the patentee's demonstration of a prototype and the distribution of "estimated sales projections" and a "cost estimate sheet" to a potential buyer constituted "sufficient sales activity prior to the critical date so as to be properly characterized as placing [the product] 'on sale.'" *Id.* Although these activities were not formal offers for sale, the "statutory proscription of § 102(b) * * * is concerned *not with the formal requisites* of the challenged activity, but with its effects." *Id.* (emphasis added).

Finally, in *American Can Co.* v. *Crown Cork & Seal Co.*, 693 F.2d 653, 656 (1982), the Seventh Circuit held that the patentee's "sales efforts" – sending to a potential buyer samples and "quoted prices" and receiving "detailed specifications" and "purchase orders" – triggered the on-sale bar. Here again, the court found no evidence of a formal offer, but nevertheless concluded that the on-sale provision of Section 102(b) applied to the patentee's activities because these "sales efforts" were conducted "in anticipation of the successful fulfillment of" production plans. Because the patentee "was vigorously after [the potential buyer's] business," its conduct amounted to placing the product on sale within the meaning of the statute. See also *National Bus. Sys.* v. *AM Int'l*, 743 F.2d 1227, 1236 (CA7 1984) (citing *Red Cross* and *Amphenol* favorably; holding bar inapplicable only because of "unusual circumstance" in which patentee had no "relevant communications" with the customer).

For its part, the Ninth Circuit subsequently adopted the Seventh Circuit's *Amphenol* test, as did the United States Court of Customs and Patent Appeals. See *Handgards, Inc.* v. *Ethicon, Inc.*, 743 F.2d 1282, 1291-92 (CA9 1984) (Sneed, Kennedy, and Boochever, JJ.) ("Courts also have found that a sales solicitation that involved the display of operable samples of the invention constituted placing the invention 'on

sale' even when production models were not available for delivery." (citing *Amphenol*)); *Robbins Co.* v. *Lawrence Mfg. Co.*, 482 F.2d 426, 431 (CA9 1973) (adopting *Amphenol* test), *cited in* MPEP § 2133.03(e)(1); *In re Theis*, 610 F.2d 786, 792 (USCCPA 1979) (approvingly citing *Amphenol* for the proposition that "'[o]n sale' status may be found from activity by the inventor or his company in attempting to market the invention," and reasoning that "[t]his is because the inventor's loss of right to a patent flows from the attempt to profit from the invention by commercial exploitation beyond the grace period allowed by Congress"), *cited in* MPEP § 2133.03(e)(1).

3. The settled understanding that "commercial marketing" triggers the on-sale bar is also reflected in the uniform decisions of the district courts. The leading decision, *Philco Corp.* v. *Admiral Corp.*, 199 F. Supp. 797, 817-18 (D. Del. 1961), *cited in* MPEP § 2133.03(e)(1), held that the bar arises from any "competitive use" of the patented product, a test that encompasses an array of marketing activities, not merely formal offers. *Philco* concluded that "the intent of the inventor" to put the patented product to competitive commercial use "is the critical factor" under Section 102(b). 199 F. Supp. at 817. Other courts agreed. Thus, in *Carborundum Co.* v. *Combustion Engineering*, 505 F. Supp. 1011 (D. Del. 1981), the court held that distributing "hand sample[s] to illustrate" (*id.* at 1022) the invention to sales representatives who then used the samples "for the purpose of demonstrating the invention to potential customers and soliciting orders" (*id.* at 1024) placed the invention "on sale." The *Carborundum* court rejected the argument that "the manufacture of these ten prototypes for test purposes or for demonstration purposes by field sales representatives did not constitute a sale or placing these attachments on sale" on the ground that sending the prototypes to the salesmen "*for purposes of soliciting orders* * * * unquestionably amounted to placing the [product] on sale." *Id.* (emphasis added).

Similarly, *L.F. Strassheim Co.* v. *Gold Medal Folding Furniture Co.*, No. 64-C-74, 1971 U.S. Dist. LEXIS 11001, at *7-*8 (E.D. Wis. Nov. 1, 1971), held that a patentee's advertising campaign, which consisted of mailing "a sales letter and price list" featuring the patented product and distributing a "publicity release" about the product to a magazine for the purpose of "soliciting orders" for the patented product triggered the on-sale bar.[2] See also *Shatterproof Glass Corp.* v. *Libbey-Owens Ford Co.*, 758 F.2d 613, 622 (CAFC 1985) (recounting without disapproval district court's instruction that "[a]n actual, consummated sale is not necessary; an offer for sale, a solicitation of orders, advertisements, or promotional activity are sufficient so long as it is of a completed invention that has been shown to be commercially useful for the purpose intended"); *Kalvar Corp.* v. *Xidex Corp.*, 384 F. Supp. 1126, 1132-33 (N.D. Cal. 1973) ("[T]he mere fact of price quotations to prospective customers along with the dissemination of samples are sufficient to support a finding that the invention was 'on sale' within the meaning of 35 U.S.C. § 102(b).").

After the Federal Circuit decided *RCA*, *supra*, district courts continued to apply the commercial marketing doctrine. For example, in *B.F. Goodrich Co.* v. *Aircraft Braking Sys. Corp.*, Nos. 91-48/91-515-SLR, 1994 U.S. Dist. LEXIS 21537 (D. Del. Nov. 10, 1994), the court held that a "technical coordination meeting" arranged as "part of an on-going effort" by the patentee to interest a potential buyer in the patented product "constituted a 'definite offer to sell' for purposes of § 102(b)" (*id.* at *94), despite the fact that "'*no offer [of sale], let alone a definite offer*,' was made at" the

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[2] The Seventh Circuit affirmed in relevant part. 477 F.2d 818 (1973) (Stevens, J.). Although the court of appeals found evidence of an actual sale, the court's opinion did not suggest that the activity relied upon by the district court would have been insufficient to trigger the on-sale bar. On the contrary, the court concluded that the bar was triggered once the product was "on the market." *Id.* at 821 (citing *Amphenol*).

meeting (*id.* at *91 (emphasis added)). According to the *Goodrich* court, because the patentee's "hope at this meeting was that the prospective vendee's technical representatives would like the product and encourage its acquisition" (*id.* at *94), the fact that no formal offer of sale was made at or even contemplated by the technical coordination meeting was irrelevant.

Similarly, in *Helifix Ltd.* v. *Blok-Lok, Ltd.*, 26 F. Supp. 2d 294, 302 (D. Mass. 1998), the court found that distribution of a sales brochure at a trade show put the patented product "on-sale for purposes of Section 102(b)." The court noted that the brochure contained no mention of ongoing experimentation or a disclaimer that the product "really was not for sale," but instead included language suggesting "that the products and methods described were available for sale," including a warranty. *Id.* The court concluded that although no firm offer had been made, the distribution of the brochure at the trade show provided "the clear and convincing evidence needed to satisfy Blok-Lok's burden of proving a prima facie case that the method embodied in Claim One was on-sale for purposes of Section 102(b)." *Id.* Here again, although the Federal Circuit subsequently reversed the district court's grant of summary judgment under Section 102(b), concluding that "there are genuine issues of material fact as to whether the '93 brochure discloses and enables each element of the method claimed in the '801 patent" (208 F.3d 1339, 1349-50 (2000)), the court of appeals left undisturbed the district court's conclusion that the brochure triggered the on-sale bar.

The Federal Circuit's decision thus represents a dramatic departure from the settled understanding of federal patent law. As petitioner now explains, that departure was entirely unjustified.

II. The Federal Circuit's New Legal Standard Conflicts with This Court's Precedents and the Purposes of the On-Sale Bar.

The Federal Circuit's *Group One* decision is most notable for its total failure to consider either the text of Section 102(b) or the policies that have long been understood to animate the on-sale bar. The *Group One* court instead held that the commercial marketing doctrine was implicitly rejected by dictum in this Court's decision in *Pfaff* v. *Wells Electronics*, 525 U.S. 55 (1998). There is no merit to that conclusion.

1. The only question before this Court in *Pfaff* related to the status of the petitioner's invention necessary to trigger the on-sale bar: the Federal Circuit had held that the invention need only be "substantially complete"; the petitioner urged that the invention must be "reduced to practice"; and the Solicitor General argued that the bar applies so long as "the sale or offer in question embodies the invention for which a patent is later sought." 525 U.S. at 60, 68 n.14. This Court rejected *all* those approaches, holding that the bar may arise so long as the invention is "ready for patenting." *Id.* at 67.

Not even the *Group One* court contended that *Pfaff*'s "ready for patenting" holding undermines the commercial marketing doctrine. Rather, the Federal Circuit found it critical that the "language" *Pfaff* used to describe the first prong of the on-sale bar inquired into whether the invention was "the subject of a commercial offer for sale." 525 U.S. at 67. But the Federal Circuit erred. As the panel correctly recognized in this case, "[t]he facts of *Pfaff* * * * did not require the Court to decide what constitutes an offer for sale in the absence of an actual sale" (Pet. App. 10a), for it was undisputed in *Pfaff* that "an offer had been made" prior to the critical date and "that the [resulting] sale was commercial" (525 U.S. at 67). To conclude, as the Federal Circuit did in *Group One*, that this Court intended *sub silentio* to overturn a century-old doctrine that was not raised by the question

presented, and furthermore was not addressed by the parties or *amici* in briefing or argument, represents the gross overreading of this Court's decision in "mistaken reliance on [a piece of] dictum" (*Milkovich* v. *Lorain Journal Co.*, 497 U.S. 1, 19 (1990)).

Furthermore, there simply is no conflict between *Pfaff*'s reference to a "commercial offer for sale" and the commercial marketing doctrine. Plainly, *Pfaff* does not purport to import the technical requirements for an "offer" set forth in the Uniform Commercial Code or the Restatement of Contracts. The Federal Circuit itself recognized in *RCA* that "a definite offer to sell is an essential requirement of the on-sale bar," but explained that this requirement "excludes merely indefinite or nebulous discussion[s] about a possible sale" and "may be met by a patentee's commercial activity *which does not* rise to the level of a formal 'offer' under contract law principles." 887 F.2d at 1062, *quoted in Group One*, 254 F.3d at 1046-47 (emphasis added). Just as important, as the district court correctly recognized (Pet. App. 70a), this Court's *explanation* in *Pfaff* of what constitutes a "commercial offer for sale" is perfectly consistent with the commercial marketing doctrine. From the outset, the Court explained that it had "granted certiorari to determine whether the commercial *marketing* of a newly invented product may mark the beginning of the 1-year period even though the invention has not yet been reduced to practice." 525 U.S. at 57 (emphasis added). In the course of answering that question "yes," *Pfaff* quoted favorably with emphasis the Court's prior decision in *Elizabeth* v. *Am. Nicholson Pavement Co.*, 97 U.S. 126, 137 (1878), that "'*[a]ny attempt to use* [the invention] *for a profit, and not by way of experiment, for a longer period than two years before the application, would deprive the inventor of his right to a patent*'" (*quoted at* 525 U.S. at 65 (emphasis in *Pfaff*)). Similarly, *Pfaff* quoted with approval Learned Hand's formulation that the on-sale bar is triggered by a patentee's efforts to "exploit his discovery competitively." *Metallizing*

Engineering Co. v. *Kenyon Bearing & Auto Parts Co.*, 153 F.2d 516, 520 (CA2 1946), *quoted at* 525 U.S. at 68.

The Federal Circuit's contrary holding rests on the flawed premise that the *Pfaff* Court's use of the term "commercial" to modify "offer" "suggests that the offer must meet the level of an offer for sale in the contract sense." Pet. App. 10a (quoting *Group One*, 254 F.3d at 1047). But that plainly is not what *Pfaff* meant by "commercial"; rather, the Court simply sought to distinguish "commercial" offers from experimental activity, which does not trigger Section 102(b). 525 U.S. at 67 ("[T]here is no question that the sale was commercial rather than experimental in character.").

The Federal Circuit's abrogation of the commercial marketing doctrine is furthermore irreconcilable with *Pfaff*'s actual holding. The petitioner in *Pfaff* argued that the on-sale bar could not apply until the invention had been "reduced to practice." 525 U.S. at 60. This Court rejected that view, holding that the bar could arise earlier – whenever the invention was "ready for patenting," no matter whether reduction to practice had yet occurred. *Id.* at 67. But the Federal Circuit's new legal standard often permits inventors to push the "critical date" for the bar much farther back by never extending a "formal offer for sale." As in this case, an invention may be "ready for patenting" for months or years, but not be subject to Section 102(b) until the day the inventor actually *accepts* a stockpiled order and *sells* a product embodying the invention.[3]

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[3] Congress is perfectly capable of requiring a formal "offer" under the patent laws but it has never done so with respect to the on-sale bar. Thus, a person who "without authority * * * *offers to sell* or sells any patented invention" commits patent infringement. 35 U.S.C. 271(a) (emphasis added). Bizarrely, the Federal Circuit has read this provision *not* to require a formal offer for sale (*3D Sys.* v. *Aarotech Labs.*, 160 F.3d 1373, 1379 (1998)) or at least to require no more of a formal offer than the "on sale" provision of Section 102(b) (*Rotec Indus.* v. *Mitsubishi Corp.*, 215 F.3d 1246, 1252 (2000)). That result is insupportable. As even the Federal Circuit recognizes (*Rotec*, 215 F.3d at 1252 n.3), the on-sale bar

2. Nor is it possible to infer that this Court indirectly abrogated the commercial marketing doctrine by rejecting a "totality of the circumstances" inquiry into the on-sale bar. Contra *Group One*, 254 F.3d at 1047. No matter what meaning is ascribed to a "commercial offer for sale" (*Pfaff*, 525 U.S. at 67), that prong of the on-sale inquiry will inevitably require application of a fact-bound test. Thus, contract law's "objective" test for the existence of an "offer" – "whether [the sender's conduct] induces a reasonable belief in the recipient that [the recipient] can, by accepting, bind the sender'' (*id.* at 286 (quoting *Architectural Metal Sys., Inc.* v. *Consol. Sys., Inc.*, 58 F.3d 1227, 1229 (CA7 1995))) – inherently calls for a case-by-case analysis of "evidence bearing on the behavior and the perceptions of the parties to the negotiation" to find an offer (*Kabil Developments Corp.* v. *Mignot*, 566 P.2d 505, 509 (Ore. 1977)). See 1 ARTHUR CORBIN, CORBIN ON CONTRACTS § 2.2, at 105-06 (1993) ("Since two cases are never identical in the exact words used, in the existing relations and history of the parties, in the circumstances surrounding the communication," the "determination of whether a certain communication by one party to another is an operative offer" made in one case "can never be regarded as a conclusive precedent for the other.").

The very decisions relied upon by the Federal Circuit in its contract law analysis in this case (Pet. App. 14a) thus hold that the determination whether an offer exists "turns upon the unique facts and circumstances of each case." *Rich Prods. Corp.* v. *Kemutech, Inc.*, 66 F. Supp. 2d 937, 956 (E.D. Wis. 1999). The application of traditional contract law principles "depends upon the nature of the particular acts or conduct in question and the circumstances attending the transaction." *Nickel* v. *Theresa Farmers Coop. Ass'n*, 20 N.W.2d 117, 118 (Wis. 1945) (quoting 12 AM. JUR., CONTRACTS § 28, at 527).

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rests on unique policy considerations that seek to encourage inventors to apply for patents as soon as they begin commercially exploiting their inventions.

The commercial marketing doctrine similarly calls for an analysis of the relevant facts and circumstances and, as such, does not engender any greater uncertainty than the Federal Circuit's exclusive focus on the existence of a "formal offer."

There also is no merit to the *Group One* court's suggestion that *Pfaff* abrogated the commercial marketing doctrine by embracing the value of "certainty of application" of the on-sale bar. *Pfaff* did not embrace "certainty" as the guiding principle of Section 102(b). To the contrary, this Court reaffirmed that a "reluctance to allow an inventor to remove existing knowledge from public use undergirds the on-sale bar." *Pfaff*, 525 U.S. at 64. See also *id.* ("[Section] 102 of the Patent Act serves as a limiting provision, both excluding ideas that are in the public domain from patent protection and confining the duration of the monopoly to the statutory term.").

This has long been understood as the bar's animating purpose. As then-Judge Stevens wrote, Section 102(b) endeavors "make sure that the inventor may not extend the period of patent protection for the commercial exploitation of his monopoly beyond the statutory term." *CTS Corp.* v. *Piher Int'l Corp.*, 527 F.2d 95, 102 (CA7 1975). See also *Woodland Trust* v. *Flowertree Nursery*, 148 F.3d 1368 (CAFC 1998) ("Section 102(b) * * * is primarily concerned with the policy that encourages an inventor to enter the patent system promptly, while recognizing a one year period of * * * commercial exploitation before the patent application must be filed."). See generally CHISUM ON PATENTS § 6.02 (The "basic policies" of Section 102 are "to avoid 'detrimental public reliance,'" "to encourage prompt disclosure of new useful information," and "to discourage attempts to extend the length of the effective patent monopoly by commercially exploiting a new invention and only applying for a patent when faced with competition.").

Congress furthermore chose to address any potential uncertainty created by the on-sale bar in a targeted manner, a

choice that the Federal Circuit has undone. The statute does not contemplate that inventors will necessarily know with absolute confidence the date on which the bar starts to run. Instead, it grants inventors one year to submit patent applications. 35 U.S.C. 102(b). As then-Judge Kennedy explained, "The one year grace period gives inventors an incentive to pursue diligently the patent process after their invention is ready for commercial application. This serves to limit the monopoly to the statutory period, and also encourages inventors to place their handiwork in the public domain *as soon as possible* so all may benefit from it." *Kock* v. *Quaker Oats Co.*, 681 F.2d 649, 652 (CA9 1982) (emphasis added) (citations omitted).

Of note, the earliest version of the bar included no grace period (Act of July 4, 1836, ch. 356, § 6, 5 Stat. 117, 119); Congress later added a two-year provision (Act of March 3, 1839, ch. 88, § 7, 5 Stat. 353, 354); in 1939 it adopted the statute in its current form. This final change reflects Congress's determination that any period longer than one year is "unduly long and operates as a handicap to industry." H.R. Rep. No. 961, 76th Cong., 1st Sess. 1 (1939); S. Rep. No. 876, 76th Cong., 1st Sess. 1 (1939). The Federal Circuit's rule, however, permits inventors such as respondent to advertise their products without formally extending offers, thereby indefinitely extending the one-year period that Congress carefully chose, all in the supposed name of "certainty" that the grace period was intended to address.[4]

At bottom, then, the Federal Circuit's decision makes no sense in terms of the purposes underlying the on-sale bar.

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[4] Indeed, if Congress truly intended to impose the test that the Federal Circuit has now adopted – a fact that the federal courts miraculously failed to recognize over the past century – it would simply have provided that the bar runs from an actual "sale." According to the court of appeals – in the mine run of cases in which offers are accepted – a product is "on sale" (as opposed to "sold") only for the day or two between the seller extending a "formal offer for sale" and the recipient's acceptance.

The court of appeals utterly failed to explain why Congress – in seeking to limit inventors' commercial exploitation of their invention without seeking a patent – would have intended the bar to apply only once a "formal offer" had been extended. Put another way, the technical requirements of the Uniform Commercial Code simply have nothing to do with Congress's goals in Section 102(b).

Indeed, other provisions of Section 102(b) make it clear that Congress did not design the on-sale bar principally, or even substantially, to provide certainty for inventors. *Pfaff* offered as an example of a doctrine that is not unduly uncertain the "experimental use" defense (525 U.S. at 67), which itself turns on "a careful examination of each item of evidence" and "may not be easy to apply" (*Kock*, 681 F.2d at 653, 658 (Kennedy, J.)). See also *Paragon Podiatry Lab.* v. *KLM Labs.*, 984 F.2d 1182, 1186 (CAFC 1993) (per curiam) ("resolution of the issue of experimental use is fact driven"). Furthermore, events entirely outside the inventor's control can trigger the on-sale bar and other similar prohibitions. Since *Andrews* v. *Hovey*, 123 U.S. 267 (1887), it has been settled that the bar can be triggered by the conduct of third parties marketing the invention without the inventor's permission or knowledge. See *Special Devices* v. *OEA, Inc.*, 270 F.3d 1353, 1355 (CAFC 2001) ("By phrasing the statutory bar in the passive voice, Congress indicated that it does not matter who places the invention 'on sale'; it only matters that someone – inventor, supplier or other third party – placed it on sale."); see also *Evans Cooling Sys.* v. *GMC*, 125 F.3d 1448 (CAFC 1997). And a bar similarly arises if the invention is published by a third party without the inventor's permission. 35 U.S.C. 102(b).

Finally, even accepting the *Group One* court's view that *Pfaff* implicitly demands that the on-sale bar incorporate a test that provides "certainty" or "control" for inventors, the Federal Circuit erred in holding that marketing activities like those in this case are not encompassed by Section 102(b). As the lower courts consistently held until *Group One*, the on-

sale bar is triggered by activity that amounts to commercial exploitation of the patented product, including advertising (*L.F. Strassheim Co.* v. *Gold Medal Folding Furniture Co.*, No. 64-C-74, 1971 U.S. Dist. LEXIS 11001 (E.D. Wis. Nov. 1, 1971)) and invitations to make offers (*Amphenol Corp.* v. *General Time Corp.*, 397 F.2d 431 (CA7 1968)). Those activities are wholly within the inventor's control. At the very least, when an inventor such as respondent actually *receives purchase orders*, as in this case, it is on notice that its own marketing activities have succeeded and the product is publicly regarded as "on sale."

Any other result skews the balance that Congress drew in Section 102(b). The on-sale bar represents a "carefully crafted bargain that encourages both the creation and the public disclosure of new and useful advances in technology, in return for an exclusive monopoly for a limited period of time." *Pfaff*, 525 U.S. at 63. An inventor who "expose[s]" his product "to the public in the marketplace" thereby "eschew[s] the bargain held out by the federal patent system of disclosure in exchange for exclusive use." *Bonito Boats, Inc.* v. *Thunder Craft Boats, Inc.*, 489 U.S. 141, 159 (1989).

The disruption engendered by the *Group One* rule is particularly powerful. For the first time, the patent laws have been construed to empower inventors unilaterally to extend their monopoly power while exploiting the value of their invention. Given the prevalence of advertising, the technical arrangement in most modern commercial transactions is that "the purchaser is the offeror, and the vendor is the offeree." *Klocek* v. *Gateway, Inc.*, 104 F. Supp. 2d 1332, 1340 (D. Kan. 2000). Under the rule adopted by the Federal Circuit, an inventor is free to engage in advertising campaigns and to receive and hold purchase orders without formally completing sales, all the while deferring applying for a patent until one year after it completes a contract by formally accepting an order, generally by shipping a product embodying the invention. That is a deeply problematic result in manufacturing and technology-related industries because

there is often a considerable lead time between the invention of a component (such as the LT1070) and a third party's production of a product (such as a circuit board) that includes the component. Neither precedent nor the text of Section 102(b) can support such a result.[5]

The Federal Circuit thus erred in abrogating the long-settled understanding of the on-sale bar. As petitioner now shows, the issue merits this Court's attention in this case.

III. This Case Presents The Ideal Vehicle To Resolve The Question Presented.

This case presents this Court with effectively the only opportunity to address the Federal Circuit's abrogation of the commercial marketing doctrine. The *Group One* case – in which the Federal Court overturned *RCA* – did not present an appropriate vehicle to address the question because the court of appeals did not even apply its new "on-sale" test in that case but rather remanded to the district court for that purpose, and it was furthermore unclear whether the bar applied in *Group One* even under the *RCA* test. Here, by contrast, this Court has the benefit of extensive fact-finding by the district court that establishes beyond question that respondent's commercial marketing barred the '741 patent under prior law. See generally Pet. App. 29a-60a. The Federal Circuit expressly "agree[d]" that respondent's "marketing blitzkrieg" would have triggered the bar under *RCA*. *Id.* 4a, 12a. The court of appeals furthermore finally resolved the on-sale issue in this case. *Id.* 17a, 22a-23a.

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[5] Indeed, the Federal Circuit's decision effectively resuscitates the long-discredited "on hand" doctrine, which held that the on-sale bar cannot arise unless and until the inventor actually has the product available for delivery to purchasers. Since *Timely Products Corp.* v. *Arron*, 523 F.2d 288, 302 (CA2 1975), the federal courts have refused to apply the "on hand" doctrine, holding that "Section 102(b) bars an application for patent filed more than one year after the *solicitation of an order* for a specific article to be produced later" (emphasis added).

Nor is this an instance in which this Court, or federal law, would benefit from deferring review of the question presented. To the contrary, substantial harm would result. The Federal Circuit's exclusive jurisdiction over the patent laws means that the decision below applies nationwide. Thus, no circuit conflict can arise. Just as important, later cases will be bereft of fact-finding on the critical issue of whether the inventor's activities were sufficient to trigger the commercial marketing doctrine, for that issue was central under prior law but is *irrelevant* under the Federal Circuit's new legal standard. It will therefore be difficult at best for this Court later to identify a vehicle that presents an appropriate opportunity to choose between the commercial marketing doctrine and the *Group One* test.

The interests of the patent system also weigh heavily in favor of granting certiorari now. Under the Federal Circuit's new legal standard, inventors will defer applying for patents in reliance on the Federal Circuit's holding that Section 102(b) is not triggered unless and until they make a formal offer for sale or actually accept an offer to complete a sale. If this Court were later to return the on-sale bar to its previously settled understanding, then these inventors would be unfairly stripped of the exclusive right to exploit their invention. Indeed, that change would itself give rise to costly and time-consuming rounds of litigation regarding the status of innumerable patents that will have been marketed by their inventors more than a year before a patent application was filed.

That is no small concern. Section 102(b) applies to *every* patent, and the bar is often in question. Patent applications are often not filed until the absolutely last possible date under the statute. This case perfectly illustrates that recurring pattern: respondent applied for a patent exactly one year after the first day on which it actually sold an LT1070 embodying the '741 patent. Pet. App. 29a, 59a. It therefore bears emphasizing that the U.S. Patent and Trademark Office receives more than 300,000 patent applications *every year*.

See *www.uspto.gov/web/offices/pac/doc/general/index.html#uspto*. Manifestly, this important and frequently recurring question merits review in this Court.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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July 3, 2002

APPENDIX

LINEAR TECHNOLOGY CORPORATION,
Plaintiff-Appellant,
v.
MICREL, INC.,
Defendant-Cross Appellant.

No. 99-1598, 00-1045

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

December 28, 2001, Decided

COUNSEL: Robert C. Morgan, Fish & Neave, of New York, New York, argued for plaintiff appellant. With him on the brief were Mark D. Rowland, and Gabrielle E. Higgins, Fish & Neave, of Palo Alto, California.

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Before CLEVENGER, GAJARSA, and DYK, Circuit Judges.

OPINION

CLEVENGER, Circuit Judge.

In this patent infringement case, Linear Technology Corporation ("LTC") sued Micrel, Inc. ("Micrel") for infringement of U.S. Patent No. 4,755,741 and Reexamination Certificate B1 4,755,741 (collectively, "the 741 patent"), directed towards adaptive transistor drive circuitry. Following a bench trial limited solely to Micrel's invalidity defense, the district court held the 741 patent

invalid due to the on-sale bar of 35 U.S.C. § 102(b). *Linear Tech. Corp. v. Micrel, Inc.*, 63 F. Supp. 2d 1103, 1126-27 (N.D. Cal. 1999).

On appeal, LTC challenges the district court's judgment of invalidity under section 102(b), and Micrel cross-appeals several of the district court's evidentiary rulings excluding letters proffered by Micrel that purportedly support its argument that an invalidating offer for sale occurred.

In this appeal, we must decide whether the facts found by the district court support its conclusion that an invalidating sale or offer for sale occurred before the statutory critical date, which in this case is November 18, 1985. In *Group One, Ltd. v. Hallmark Cards, Inc.*, 254 F.3d 1041, 59 U.S.P.Q.2D (BNA) 1121 (Fed. Cir. 2001), decided after the district court entered judgment in *Linear Tech. Corp.*, this court changed the analysis required to determine whether an offer for sale has occurred. Under the new legal standard articulated in *Group One*, neither the facts found by the district court nor the evidence of record supports a conclusion that an invalidating offer for sale occurred in this case, and we therefore reverse the district court's judgment of invalidity. We affirm the court's ruling in all other respects.

I

BACKGROUND

LTC, the assignee of the 741 patent, designs, manufactures, and sells linear integrated circuits for use in a variety of applications, including telecommunications, cellular phones, and computers. Carl Nelson, an LTC employee and the named inventor of the 741 patent, conceived the invention while developing a new silicon chip for LTC, a chip that eventually became known as the LT1070. The patented invention involves switching regulator circuitry that provides regulated voltages or currents to electrical devices. According to Nelson, the

LT1070 chip is a functioning version of the invention claimed in the 741 patent.

In the months and weeks leading up to the official release date of the LT1070 chip on November 18, 1985, LTC engaged in extensive pre-release marketing activity designed to generate commercial interest in the chip both in the United States and abroad. During this time, LTC employed independent sales representative firms to sell its products in the domestic market. LTC also sold its products in Europe through its independent European distributors, who served a dual role: as customers they purchased products from LTC for resale, while as sales representatives they marketed and sold those products to end-users in Europe. During the 1980s, LTC used product data sheets as a primary selling tool; these sheets informed customers of LTC product specifications so that the customers could design LTC components into their own products. LTC generated a pre-release preliminary data sheet for the LT1070, which listed many of the salient features of the new chip. Though LTC did not receive the glossy, professionally printed version of the preliminary data sheet from the printer until late October 1985, a yet-more-preliminary form of the data sheet nonetheless made its way into the hands of LTC's sales representatives before October, and the sales representatives sent the data sheets to potential customers before the critical date.

In July of 1985, LTC conducted a sales conference in Santa Clara, California, to which it invited both its domestic and international sales representatives. Robert Scott, LTC's Product Marketing Manager in 1985, testified that LTC held the conference "to inform those attending of new and future LTC products, including . . . unannounced products which were still being developed but which were not yet available for sale." Two presentations at the conference discussed the LT1070, and one of the attendees sketched an application circuit diagram of the LT1070 into his notebook from the

conference. Scott testified that LTC provided information on the LT1070 so that the attendees could identify and familiarize themselves with customers who might be able to use the LT1070, and he admitted that the sales representatives were allowed to talk to customers about the part, albeit in less detail than for a released product. LTC also pitched the LT1070 in a newsletter that it distributed to all its domestic sales representatives and international distributors on or about November 1, 1985. The newsletter enthused:

> The LT1070 promises to be a big hit at accounts facing the decision of whether to 'make or buy' their next power supply . . . . Carl Nelson's goal in designing the LT1070 series is to provide the user a high performance-easy-to-use-switching regulator requiring very few external components, at a very competitive cost compared to conventional power supply designs. Our first look at samples says the LT1070 series won't disappoint anyone . . . .

Meanwhile, Hans Zaph, LTC's Director of International Sales, praised the LT1070 directly to the international distributors, calling it a "brand new switch mode power supply circuit, which will be a true industry first."

By October 1985, LTC had generated enough excitement that the independent sales representatives were actively promoting the LT1070 to customers, even though the new chip had not yet been released for sale. Indeed, one independent sales representative exhorted his colleagues in an intra-office memorandum that "WE REALLY MUST START BROADENING OUR ACCOUNT BASE NOW. THE LT1070 CAN BE SOLD ANYWHERE; BEST DAMNED POWER SUPPLY PART IN HISTORY."

Unsurprisingly in light of its marketing blitzkrieg, LTC received purchase orders from four of its European

distributors offering to buy LT1070 chips before the official release date. Following its standard procedure for unreleased products, LTC did not book the four purchase orders for the LT1070. Instead, LTC entered the orders into its computerized order tracking system using what the parties refer to as the "will-advise" procedure. Instead of entering part number, quantity and price terms as they would for an order for a released product, LTC customer service representatives entered the LT1070 orders into a computer using the words "WILL ADVISE." LTC then added the following words to the computer-generated form, "NEW PRODUCT/NOT RELEASED," "WILL ADVISE ON PART # ORDERED-NOT BOOKED" in place of the part number and part description fields in their tracking system. In all but one case,[1] LTC entered "0" in the price field, and "1" in the quantity field regardless of the number of chips actually ordered, because the software required a nonzero number in the quantity field. LTC's system thus generated an acknowledgement form containing the above-described information, and a customer service representative faxed the acknowledgement to the foreign distributors to notify them of the status of their order. LTC customer service periodically checked the status of the will-advise orders, and after LTC officially released the LT1070, customer service deleted and reentered the will-advise orders as "normal" orders using the newly-minted LT1070 part number, the actual quantity ordered, and the actual price term. This transformation did not require—and LTC never sought—any

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[1] In one case – a purchase order received from international distributor Neye – LTC entered the actual number ordered (fifty) as well as the price, $ 5.25. However, this order still contained the will-advise notation in the part number column, and was tracked in the same way as the other will-advise orders.

further communication from the distributors regarding the order, and LTC shipped the LT1070s to the distributors shortly thereafter. From the distributors' perspective, therefore, the LT1070s arrived without any further action by them other than their pre-release-date submission of a purchase order.

Following their extensive pre-release marketing build-up, LTC officially released the LT1070 for sale on November 18, 1985, exactly one year before it filed the application that eventually issued as the 741 patent. Two reexamination certificates issued on May 14, 1991, and December 26, 1995, as Reexamination Certificates B1 4,755,741 and B2 4,755,741, respectively; both resulted from reexamination requests filed by third parties, including Micrel in the case of the B2 Certificate.

Micrel, a direct competitor of LTC, also makes switching regulator circuitry. On May 9, 1994, LTC filed this action claiming that Micrel's MIC 2172 and MIC 3172 chips infringe the 741 patent. In a motion for summary judgment of invalidity, Micrel argued that LTC offered the LT1070 chip for sale over one year before the November 18, 1986, filing date of the 741 patent, thus triggering the on-sale bar of 35 U.S.C. § 102(b). The district court denied Micrel's motion, bifurcated the case for a separate early trial on the section 102(b) issue, and stayed all other issues pending resolution of Micrel's invalidity defense.

The district court conducted a bench trial on the on-sale bar issue. Following trial, but before the court issued its opinion and judgment, the Supreme Court decided *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55 (1998), which discarded the flexible totality-of-the-circumstances test upon which the parties relied in their arguments before the district court. In its place, the *Pfaff* Court articulated a two-prong test to govern application of the on-sale bar, holding that the one-year clock begins to run when (1) the product is "the subject of a commercial offer for sale"; and (2) the invention is

"ready for patenting." 525 U.S. at 67. The district court applied *Pfaff*, holding with respect to the second prong that the LT1070 chip embodies the inventions in all claims asserted against Micrel, *Linear Tech. Corp.*, 63 F. Supp. 2d at 1106, and that the invention was ready for patenting before the critical date of November 18, 1985, *id.* at 1123. LTC does not dispute either of these conclusions on appeal to this court.

The district court then turned to "the closer question of whether LTC made a commercial sale or offer for sale in the United States prior to the critical date." 63 F. Supp. 2d at 1123. To decide this issue, whether the LT1070 had been the subject of a commercial offer for sale, the district court applied our pre-*Pfaff* opinion in *RCA Corp. v. Data General Corp.*, 887 F.2d 1056, 12 U.S.P.Q.2D (BNA) 1449 (Fed. Cir. 1989), which held that commercial activity not rising to the level of a formal offer for sale could trigger the on-sale bar. 887 F.2d at 1062, 12 U.S.P.Q.2D (BNA) at 1454.

The district court carefully documented LTC's extensive promotional activities prior to the critical date. In particular, the court relied on trial testimony indicating "that LTC engaged in substantial preparatory activity prior to the formal release of the LT1070 on November 18, 1985, including seeking feedback from its sales representatives and distributors regarding the pricing of the LT1070 and the publication of data sheets and other promotional materials." *Linear Tech. Corp.*, 63 F. Supp. 2d at 1125. These activities, the district court concluded, went "beyond the making of mere preparations for the commercialization of the LT1070." *Id.* The court also pointed to LTC's communications to its sales force as evidence of active commercialization, particularly the newsletters extolling the LT1070 and the July 1985 sales conference that introduced the sales force to the new chip. *Id.* The district court further noted that LTC's attendance at a European trade show and its presentation of the LT1070 to its European distributors at

a conference in Paris, while not activities in the United States, "provide evidence of contemporaneous efforts by LTC to market the LT1070 prior to the critical date." *Id.*

Finally, the district court found that LTC "expected its sales force to discuss the LT1070 and its functions with end-user customers," and that LTC gave the sales representatives information about the LT1070 in order to enable this marketing effort. *Id.* The court pointed to testimony that "established that data sheets and samples were necessary to offer LTC products for sale to customers," and that "sales personnel at [two of LTC's domestic sales representative firms] contacted end-user customers and provided them with preliminary LT1070 data sheets in order to seek design-ins for the LT1070." *Id.* Discussions between the sales force and customers "resulted in 26 separate requests for LT1070 samples from [LTC's] domestic and international sales force between July 17, 1985, the date of the sales conference, and the critical date . . . ." *Id.* Ultimately, the court concluded that "the use of the preliminary data sheets establishes that discussions between LTC sales representatives and end-user customers extended beyond merely nebulous or indefinite discussions about a possible sale," thus triggering the on-sale bar under RCA Corp. Id.

The court also concluded that LTC's entry of pre-critical date purchase orders from its international distributors constituted completed sales. The will-advise procedure, under the district court's theory, was nothing more than a subterfuge obscuring LTC's actual acceptance of the purchase orders before the critical date. Thus, despite the fact that the orders were not formally booked, the court found that "it is clear that the entry of the orders for the LT1070 into the bookings system constituted a completed sale." 63 F. Supp. 2d at 1126. Acceptance of these pre-critical date purchase orders under the will-advise procedure thus provided an alternative basis for the court's ultimate conclusion of invalidity under the on-sale bar.

Based on its extensive findings regarding LTC's pre-critical date commercialization efforts, as well as findings regarding four pre-critical date purchase orders by LTC's independent international distributors entered under the will-advise procedure, the district court concluded that LTC had offered for sale and sold the LT1070 prior to the critical date. 63 F. Supp. 2d at 1126-27. Consequently, the district court entered judgment holding the asserted claims of the 741 patent invalid, and LTC appealed, vesting us with jurisdiction pursuant to 28 U.S.C. §1295 (a)(1).

II

A determination that a product was placed on sale prior to the critical date is a conclusion of law based on underlying findings of fact. *Ferag AG v. Quipp, Inc.*, 45 F.3d 1562, 1566, 33 U.S.P.Q.2D (BNA) 1512, 1514-15 (Fed. Cir. 1995). We review the ultimate determination de novo, and the underlying factual findings for clear error. *Id.*

Section 102 of Title 35 of the U.S. Code provides in relevant part that "[a] person shall be entitled to a patent unless . . . (b) the invention was . . . on sale in this country, more than one year prior to the date of the application for patent in the United States . . . ." To prevail on an on-sale bar defense, an accused infringer must demonstrate by clear and convincing evidence that "there was a definite sale or offer for sale of the claimed invention prior to the critical date, defined as one year prior to the U.S. filing date to which the application was entitled." *Mas-Hamilton Group v. LaGard, Inc.*, 156 F.3d 1206, 1216, 48 U.S.P.Q.2D (BNA) 1010, 1018 (Fed. Cir. 1998) (quoting *Pfaff v. Wells Elecs., Inc.*, 124 F.3d 1429, 1433, 43 U.S.P.Q.2D (BNA) 1928, 1931 (Fed. Cir. 1997), *aff'd*, 525 U.S. 55 (1998)).

As the district court recognized, the Supreme Court's opinion in *Pfaff* rejected our previous flexible, totality-of-the-circumstances on-sale bar analysis in favor of a two-part test. Under *Pfaff*'s test, the on-sale clock begins to run when

two conditions are met: (1) "the product must be the subject of a commercial offer for sale"; and (2) "the invention must be ready for patenting." 525 U.S. at 67. The *Pfaff* Court explained that its standard is more definite and better suited to fulfill the purpose of the on-sale bar, which strives "both to protect the public's right to retain knowledge already in the public domain and the inventor's right to control whether and when he may patent his invention," 525 U.S. at 65, by "fixing a period of limitation which should be certain" within which the inventor must file his application or lose his right to a patent. *Id.* (quoting *Andrews v. Hovey*, 123 U.S. 267, 274 (1887)).

Though the *Pfaff* Court explained at length the "ready for patenting" prong, it provided less guidance on the definition of a "commercial offer for sale." In the case before it, the inventor had accepted a purchase order memorializing a sale before the critical date, which persuaded the Supreme Court that an offer for sale had been made at some point before that. 525 U.S. at 67. The facts of *Pfaff* thus did not require the Court to decide what constitutes an offer for sale in the absence of an actual sale.

In *Group One*, this court applied the offer-for-sale prong of *Pfaff* to a situation in which the patentee engaged in pre-sale negotiations that never resulted in a formal offer. The district court in *Group One* had found that although the negotiations did not rise to the level of an offer for sale under contract law principles, they nevertheless triggered the on-sale bar under our pre-*Pfaff* opinion in *RCA Corp.*, in which we had stated that the on-sale bar may be triggered by "a patentee's commercial activity which does not rise to the level of a formal 'offer' under contract law principles." *RCA Corp.*, 887 F.2d at 1062, 12 U.S.P.Q.2D (BNA) at 1454. On appeal in *Group One*, we noted that the district court's approach conflicted with the "commercial offer for sale" language in *Pfaff*, which "strongly suggests that the offer must meet the level of an offer for sale in the contract sense,

one that would be understood as such in the commercial community." *Group One*, 254 F.3d at 1046, 59 U.S.P.Q.2D (BNA) at 1125. Moreover, we reasoned that applying contract law principles to the on-sale bar will help create the certainty of application that the Supreme Court sought when it enunciated its holding in *Pfaff*. 254 F.3d at 1047, 59 U.S.P.Q.2D (BNA) at 1125. Therefore, *Group One* held that "only an offer which rises to the level of a commercial offer for sale, one which the other party could make into a binding contract by simple acceptance (assuming consideration), constitutes an offer for sale under §102(b)." 254 F.3d at 1048, 59 U.S.P.Q.2D (BNA) at 1126. In so holding, we expressly held that our previous enunciation of the law in *RCA Corp.* is incorrect in light of *Pfaff*.

Under *Group One*, interpretation of *Pfaff*'s commercial offer-for-sale prong thus requires the application of traditional contract law principles to the facts of the particular case. Because the on-sale bar involves questions of patent law requiring national uniformity, *Group One* declined to rely on the law of the particular state in which the transaction occurred, instead holding that the existence of an offer for sale should be analyzed "under the law of contracts as generally understood." *Group One*, 254 F.3d at 1047, 59 U.S.P.Q.2D (BNA) at 1126. *Group One* further instructs that the Uniform Commercial Code ("UCC") should inform the analysis of the contractual issues. *Id.* ("As a general proposition, we will look to the Uniform Commercial Code ('UCC') to define whether, as in this case, a communication or series of communications rises to the level of a commercial offer for sale."). Of course, the UCC is a model code—it does not itself have the force of law and no body of case law has explored its provisions. Instead, it has been enacted with modifications in the several states. Thus, the body of case law from which we must draw guidance under *Group One* is that of the state and federal courts interpreting their individual versions of the UCC.

From this body of state law, we will search for the common denominator for assistance in crafting the federal common law of contract that now governs the on-sale bar.

Though the district court applied *Pfaff*, it did so without the benefit of our opinion in *Group One*. Our task is to consider whether, under the legal principles articulated in *Group One*, the district court's conclusion that LTC's activities triggered the on-sale bar may be sustained. As we described above, the district court based its conclusion of invalidity on two alternative grounds: first, that LTC's active promotion of the LT1070 to customers before the critical date triggered the on-sale bar, *Linear Tech. Corp.*, 63 F. Supp. 2d at 1125-26; and second, that LTC actually sold the LT1070 to four of its independent European distributors before the critical date under the will-advise procedure, which also triggered the bar, 63 F. Supp. 2d at 1126. The question presented on appeal is whether those conclusions may be sustained in light of *Group One*. We turn first to the district court's conclusion that LTC's pre-critical date commercialization triggered the on-sale bar.

A

In its conclusions of law, the district court found that "LTC's sales force was actively promoting the LT1070 to end-user customers" before the critical date, 63 F. Supp. 2d at 1125-26, which triggered the on-sale bar. As an initial matter, we agree with the district court that LTC's activities would have triggered the on-sale bar under the law as enunciated in *RCA Corp.* LTC's significant pre-release efforts at commercialization and its targeted advertising to end-users could have triggered the on-sale bar under *RCA Corp.* even if they did not rise to the level of a contractual offer-for-sale because, as the district court found, they went "beyond merely nebulous or indefinite discussions about a possible sale." 63 F. Supp. 2d at 1125.

However, the district court's reliance upon our decision in *RCA Corp.* for the proposition that promotional activity not rising to the level of a contractual offer-for-sale can trigger the on-sale bar is untenable in light of *Group One*, which is binding precedent governing this court's resolution of the case at bar. As we recognized in *Group One*, *Pfaff* undercut the *RCA Corp.* flexible standard and thus removed the pre-release commercialization activity cited by Micrel and the district court as a predicate to a legal conclusion of an on-sale bar. However, our conclusion that the district court applied the incorrect legal standard does not end our inquiry because we may still affirm if the facts reveal an offer for sale under the legal test articulated in *Group One*.

B

It is of course possible that the facts found by the district court, when analyzed under the test of *Group One*, support a conclusion of a violation of the on-sale bar. We therefore must assess the four categories of facts upon which the district court focused. Those categories are: (1) LTC's solicitation of pricing information from its distributors and sales representatives; (2) LTC's publication of preliminary data sheets and promotional information on the LT1070; (3) LTC's communications to its sales force in its newsletters and via the sales conference in July of 1985, and the sales representatives' communications with customers providing them with the LT1070 preliminary data sheets; and (4) sales representatives' pre-critical date requests for LT1070 samples to give to specific customers. From this evidence, Micrel argues that the district court could infer that invalidating offers for sale had been made. Viewed under general principles of contract law, however, we think that none of these activities constitutes an offer for sale under general principles of contract law.

The UCC does not define "offer," so we will look to the common law to guide our inquiry. "An offer is the manifestation of willingness to enter into a bargain, so made

as to justify another person in understanding that his assent to that bargain is invited and will conclude it." Restatement (Second) of Contracts § 24 (1981); accord Richard A. Lord, Williston on Contracts § 4:13, at 367 (4th ed. 1990) (explaining that "in order for an offer to exist, it must constitute a manifestation communicated to the offeree so as to justify his understanding that by assenting a bargain will be concluded"). Thus, the internal communications between LTC and its sales representatives soliciting information on pricing for the LT1070 cannot constitute an offer for sale to a customer not privy to the communications. But while LTC's request for pricing information from its United States representatives did not involve communication to a potential buyer, the district court did find that at least one sales representative spoke to potential customers in order to help LTC determine an appropriate price for the chip. *Linear Tech. Corp.*, 63 F. Supp. 2d at 1113. But such communications cannot be considered offers, because they do not indicate LTC's intent to be bound, as required for a valid offer. See Restatement (Second) of Contracts § 26 (1981) ("A manifestation of willingness to enter into a bargain is not an offer if the person to whom it is addressed knows or has reason to know that the person making it does not intend to conclude a bargain until he has made a further manifestation of assent."); see also *Nickel v. Theresa Farmers Coop. Ass'n,* 247 Wis. 412, 20 N.W.2d 117, 118-19 (Wis. 1945) ("Whether a communication naming a price is a quotation or an offer depends upon the intention of the owner as it is manifested by the facts and circumstances of each particular case." (quoting 12 Am. Jur. § 28)); *Rich Prods. Corp. v. Kemutec, Inc.*, 66 F. Supp. 2d 937, 956 (E.D. Wis. 1999). In this case, according to the telex sent to the sales representatives soliciting information, LTC clearly had not yet set a price for the LT1070 and merely sought "good input from users to see what they feel it's worth . . . ." No reasonable customer could interpret such a request for

information, barren of any other terms, as an offer to which LTC could be bound.

Similarly, LTC's mere publication of preliminary data sheets and promotional information for the LT1070 communicates nothing to customers about LTC's intent, and thus cannot be an offer for sale. Such activities only indicate preparation to place the LT1070 on sale. Preparation alone cannot give rise to an on-sale bar under *Group One*.

The third category of behavior relied upon by the district court in finding an on-sale bar consists primarily of LTC's dissemination of advertising materials and other information about the LT1070 to customers. LTC provided this information both orally (through the sales conference) and in writing (through the preliminary data sheets and newsletters). As to the sales conference attended by both domestic sales representatives and the foreign sales representative/distributors, it is clear that LTC designed it to be informational in nature and did not intend to use it to offer the LT1070 for sale. The district court found that LTC "presented the information about the LT1070 so that the sales representatives and international distributors would identify and familiarize themselves with customers who might be able to use the LT1070." *Linear Tech. Corp.*, 63 F. Supp. 2d at 1109. In other words, the conference did not make offers for sale but rather laid the necessary groundwork for future offers.

Like the sales conference, the November "Newsline" newsletter extolling the virtues of the LT1070 and LTC's other products is another form of promotional material, i.e., an advertisement. Though primarily directed to domestic sales representatives who never purchased LTC products and to whom LTC did not make offers, the newsletters were also sent to the European distributors. The question therefore becomes whether such promotional materials extended an offer for sale to those distributors. As we noted in *Group One*, "contract law traditionally recognizes that mere

advertising and promoting of a product may be nothing more than an invitation for offers, while responding to such an invitation may itself be an offer." *Group One*, 254 F.3d at 1048, 59 U.S.P.Q.2D (BNA) at 1126. Accordingly, "in any given circumstance, who is the offeror, and what constitutes a definite offer, requires looking closely at the language of the proposal itself." *Id.* The November Newsline discusses the LT1070 in a column entitled "WHAT'S NEW." It speaks of the LT1070 prospectively, i.e., as a product not yet available for sale. The column opens by stating that "looking ahead there are three new products that many of you have been clamoring to get hold of," and lists the LT1070 as one such product. It then goes on to "sharpen your memory just a bit" regarding the LT1070's main product features, and concludes by telling readers that they should "be on the watch next month for a full product bulletin including details on pricing, samples, production availability and media coverage . . . ." None of this language even arguably offers the LT1070 for sale. Rather, it puts readers on notice that LTC will make such offers to sell in the near future—but not today. Such language may have prompted requests to buy made to LTC, but such offers to buy standing by themselves are not proof of a previous offer to sell.

The communications from LTC sales representatives providing customers with preliminary LT1070 data sheets likewise do not reveal the requisite intent to be bound, a sine qua non of an offer. Based on testimony from sales representatives, the district court found that LTC sales representatives contacted end-user customers and provided them with data sheets "in order to seek design-ins for the LT1070." *Linear Tech. Corp.*, 63 F. Supp. 2d at 1125.[2] The

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[2] As described by the district court, the "process of getting a design engineer at a company to use a component product in one of the engineer's applications is known as a 'design-in.'" *Linear Tech. Corp.*, 63 F. Supp. 2d at 1108.

data sheets are a necessary component of an offer for sale, because without them the customers cannot determine whether or not they can make any use of the LT1070 product. *Id.* The parties dispute whether the preliminary LT1070 data sheets contained enough information to enable a design-in. But even assuming arguendo that the data sheets contained all requisite information, we think that their dissemination to customers did not offer the LT1070 for sale. In the absence of a clear indication to the contrary, the communications between the LTC sales representatives and the customers must be regarded as merely preliminary negotiations at most designed to enable customers to submit offers to buy.

The final basis upon which the district court relied to find an offer for sale was the numerous requests for samples made by sales representatives in the days leading up to the November 18 release date. Many of these requests identified specific customers to whom the samples would be provided, suggesting that the sales representatives had communicated with customers about the LT1070. Thus, the numerous requests show that the LTC sales force was gearing up to offer the LT1070 for sale—but they do not show that the sales force actually made any offers before receiving the samples.

In short, none of the pre-critical date communications between LTC and its sales representatives or between the sales representatives and customers rose to the level of an offer for sale that would form a contract if accepted. Thus, as a matter of law, none of them triggered the on-sale bar under *Group One*.

C

We turn now to the other basis for the district court's ultimate conclusion of invalidity under the on-sale bar: its conclusion that LTC sold LT1070s to its European distributors when it entered the pre-critical date purchase

orders into its system using the will-advise procedure. General principles of contract law must govern a conclusion that a sale occurred, and under these principles, a completed sale requires an offer, an acceptance, and consideration. We recognize that under the UCC, a valid contract can be found even if the court cannot pinpoint the exact time of its formation, UCC § 2-204(2), but this rule—however laudable in the commercial setting—cannot relieve th[redacted] in an on-sale bar setting from ascertaining if a sale, or an offer for sale, has been made before the critical date. The district court evaluated the facts and concluded that such an invalidating sale took place, and we review this conclusion of law de novo. We therefore turn to the facts to determine whether they support the conclusion that at least one invalidating contract for sale was concluded under the will-advise procedure before the critical date.

As an initial matter, it is undisputed that the purchase orders submitted by the foreign distributors were offers to buy the LT1070. The purchase orders contained sufficiently definite terms to create an enforceable contract upon acceptance under the UCC; they included quantity terms and clearly identified the requested product: the LT1070. True, they did not specify a price, but the UCC does not require price terms to create a binding contract. See U.C.C. § 2-305.[3] There can be no doubt that at some point LTC accepted the LT1070 offers, because eventually—and safely after the critical date—it filled the orders. The question is whether LTC accepted them before November 18, 1985,

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[3] The disputed purchase orders also contained offers to buy other parts that had already been released and were not subject to the will-advise procedure. That LTC could—and did—accept the distributors' offers to buy the released products demonstrates that the purchase orders were "offers to buy" that became binding if accepted

because if so, then it entered into a binding contract to sell the LT1070 that invalidates the 741 patent.

Under general principles of contract law, to accept an offer an offeree must make a manifestation of assent to the offeror. See Williston on Contracts, *supra*, § 4:1, at 236 ("It is customarily said that mutual assent is essential to the formation of informal contracts, but it must be noted that the mutual assent must be manifested by one party to the other, and except as so manifested, is unimportant."). Thus, the district court erred as a matter of law in holding that "the entry of the orders for the LT1070 into the bookings system constituted a completed sale," *Linear Tech. Corp.*, 63 F. Supp. 2d at 1126, because LTC could not validly accept without communicating its acceptance to the distributors, and mere entry into the booking system communicates nothing to the offeror. LTC clearly understood this concept, because it had a longstanding practice of accepting orders by faxing a computer-generated confirmation to the distributors notifying them, among other things, that LTC had accepted their purchase order. In the case of the will-advise orders, LTC sent a confirmation that it had received but not booked the purchase orders, and based upon the evidence of record, we think that Micrel did not carry its burden of proving that the will-advise confirmations manifested LTC's acceptance of the purchase orders.

In order to be effective, an acceptance must objectively manifest the offeree's assent. See *Superior Boiler Works, Inc. v. R.J. Sanders, Inc.*, 711 A.2d 628, 633 (R.I. 1998) ("A contract for the sale of goods between merchants requires a concrete offer and a response constituting a 'definite and seasonable expression of acceptance.'" (quoting 2 William Hawkland, Uniform Commercial Code Series § 2-207:7, at 159-60 (1996) (footnote omitted))). This rule flows from a more general principle of contract law holding that the parties' objective, expressed intent—not their secret, subjective intent—controls whether a bargain has been

struck. See, *e.g.*, *Abbott Labs. v. Alpha Therapeutic Corp.*, 164 F.3d 385, 387 (7th Cir. 1999). Therefore, even if LTC privately intended to accept the offers, it did not form a contract until it objectively communicated this fact to the distributors. Thus, the crucial question is whether upon receipt of the will-advise acknowledgement, the distributors could reasonably believe that LTC had accepted their orders.

LTC contends that the will-advise acknowledgements told the distributors that it "did not accept" the premature purchase orders, a position with which Micrel understandably disagrees. Testimony established that when LTC entered the premature purchase orders under the will-advise procedure, instead of providing the standard booking information for an accepted order, the system-generated confirmation sheet clearly stated "WILL ADVISE," "NEW PRODUCT, NOT RELEASED," "WILL ADVISE WILL ADVISE [sic] ON PART # ORDERED-NOT BOOKED." Customer service at LTC sent the confirmation sheet with these cautionary notes to the foreign distributors. Micrel argues that LTC thereby accepted the purchase orders, thus completing a sale of the LT1070. We think not. In the absence of a course of dealing or other evidence to the contrary, we think that a reasonable offeror in the distributors' position who received an acknowledgement that—unlike those for the unambiguously-accepted orders—explicitly states that the order for the LT1070 was "NOT BOOKED," would understand that LTC had not booked and therefore had not accepted the order.[4]

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[4] We note that the district court did not make any explicit findings of fact regarding whether LTC accepted the distributor's offers. However, to the extent that the court's legal conclusion that a sale occurred implicitly finds that LTC accepted the purchase order, then that finding was clearly erroneous. As described *infra*, there is no evidence of record showing an objective manifestation of assent by LTC

When we asked Micrel at oral argument to support its position that the distributors understood the acknowledgement to be an acceptance, Micrel pointed to testimony allegedly showing that the will-advise notation merely notified the distributors that they would be informed of a shipment schedule at a later time. An LTC employee affirmed that the "will-advise" notation in the shipping date column of a post-critical date acknowledgement sent to a European distributor "means that Linear was going to advise [the distributor] at some point in the future when it would be able to ship the 50 LT1070s that Linear had formally booked on November 19th." We are not so sanguine as Micrel that this testimony establishes that LTC always meant the "will-advise" notation merely to refer to future advice regarding shipping, particularly as the acknowledgement to which the witness referred was for an order that was "formally booked" and apparently was missing only the shipping date. But even if LTC did attach this idiosyncratic meaning to all will-advise notations, Micrel's evidence does not answer whether LTC objectively informed the distributors of this fact. Whatever the will-advise notation meant to LTC is not relevant to the section 102(b) inquiry; what it meant to its recipient is critical. Micrel, however, could point to no evidence, either in its brief or at oral argument, that shows what the distributors thought the will-advise notation meant. Indeed, the record is devoid of any evidence, testimonial or otherwise, as to what the distributors actually understood when they received the will-advise confirmations. In the absence of such evidence, we think that the natural reading of "WILL ADVISE-NOT BOOKED," i.e. that the orders were not accepted, must prevail.

Micrel urges that we look to the conduct of the parties to show the pre-critical date existence of a contract, and notes

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to the distributors, and without such evidence there can be no finding of an acceptance.

in particular that no further communication from the distributors was required before LTC transformed the "will advise" orders to "normal orders" and shipped them to the buyers. Even if the treatment of the pre-critical date orders were considered as somewhat suspicious, and LTC regarded the "will-advise" notation as nothing more than a surrogate for its subjective intent to accept the orders, nevertheless, it falls on Micrel to prove by clear and convincing evidence that LTC communicated its subjective intent to the distributors, and this Micrel has failed to do. The fact that the distributors did not submit any further information before receiving the goods does not show that they knew LTC accepted them under the will-advise procedure—it merely demonstrates that they knew LTC accepted the orders at some point. Indeed, under UCC § 2-206(1)(b), shipment itself can be an acceptance, and the distributors could have reasonably assumed that LTC finally accepted their orders when it shipped the LT1070s.

Thus, while we have testimony from LTC as to what it thought the will-advise notation meant internally (i.e., just a delay in shipping), and while it is true that the UCC does not require a price term or shipping date to form a valid contract, we are still short a crucial piece of evidence necessary to find a contract: proof of a valid acceptance before the critical date. The missing piece of evidence—the Achilles' heel in Micrel's case—is testimony or other evidence as to what the distributors understood when they received their "will advise" acknowledgements. Nor, of equal significance, does the record disclose any evidence suggesting that the distributors were not free to withdraw their offers at any time before their post-critical date acceptance by LTC. Thus, there is no evidence, clear and convincing or otherwise, from which one may draw a conclusion that an acceptance occurred. Without an acceptance, there can be no contract, and hence, under *Group One*, no on-sale bar. We therefore

reverse the district court's judgment holding the 741 patent invalid under the on-sale bar.

III

This brings us to Micrel's cross-appeal of an evidentiary ruling by the district court excluding certain letters discovered in files kept by a sales representative at the now-defunct Rockmore firm, one of the sales representative firms employed by LTC in 1985. On appeal, "we review evidentiary rulings of the district court for abuse of discretion, and interfere with its judgment only if an erroneous ruling prejudiced substantial rights." *Applied Med. Res. Corp. v. U.S. Surgical Corp.*, 147 F.3d 1374, 1380, 47 U.S.P.Q.2D (BNA) 1289, 1293 (Fed. Cir. 1998).[5]

Micrel appeals rulings by the district court excluding from evidence three letters addressed from Robert Stenstrom, an LTC sales representative, to customers. The

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[5] We note that there appears to be some confusion over whether evidentiary rulings in patent cases should be reviewed under the law of the regional circuit or under Federal Circuit law. Compare *Applied Med. Res. Corp.*, 147 F.3d at 1380, 47 U.S.P.Q.2D (BNA) at 1293 (applying Federal Circuit law to review an evidentiary ruling), with *Advanced Cardiovascular Sys. v. Medtronic, Inc.*, 265 F.3d 1294, 1308, 60 U.S.P.Q.2D (BNA) 1161, 1171 (Fed. Cir. 2001) (noting that "evidentiary rulings ... are not unique to our jurisdiction and, accordingly, we review them under the law of the [regional circuit]"). Fortunately, in this case the law of the Federal Circuit and that of the Ninth Circuit—the relevant regional circuit for this appeal—are in accord. See *Advanced Cardiovascular Sys.*, 265 F.3d at 1308, 60 U.S.P.Q.2D (BNA) at 1171 (applying Ninth Circuit law and noting that on appeal the challenger must "prove that the evidentiary preclusions were an abuse of discretion and that it suffered substantial prejudice").

letters discuss the LT1070 and specifically state that an LT1070 preliminary data sheet is enclosed. Micrel sought to admit the letters to show that "LTC, through its sales representatives, sent out data sheets and solicited orders in the United States before the critical date." The district court excluded the letters on authentication grounds under Fed. R. Evid. 901, and on appeal Micrel argues that the district court erred in so-doing. In light of our decision on the merits of Micrel's commercialization argument, the letters are not relevant if offered solely for the purpose of showing commercialization that does not rise to the level of an offer for sale. However, assuming arguendo that the letters are relevant to show a contractual offer for sale, after reviewing the district court's rulings and the letters at issue, we conclude that the court did not abuse its discretion in excluding them based on lack of authentication.

The letters—all of which are dated before the critical date—are not signed, are not on company letterhead, and bear no outward indicia of having ever been mailed to a customer. They were found in files kept by John Moore, a former sales representative of Rockmore. Micrel attempted to authenticate the letters through testimony by Moore and by their putative author, Robert Stenstrom. However, while Stenstrom testified that he sent copies of the LT1070 data sheet to customers, he had no recollection of mailing the letters at issue. Micrel asserts that the copies originally came from a so-called reading file, and notes that only mailed letters were kept in reading files. Ergo, argues Micrel, the letters must have been mailed.

The district court did not find Micrel's "reading file" evidence persuasive, and neither do we. The problem lies in Micrel's first assumption: that the letters came from a reading file. First, the Stenstrom letters did not look like letters from a Rockmore reading file because unlike reading file letters, the Stenstrom letters were not three-hole punched. And while Stenstrom, based on his recollection of

the business practices of thirteen years before, testified that it was likely that the copies at issue came from a reading file, he admitted that he could not be sure. Nor did Moore's testimony necessarily provide adequate grounds for showing the letters' original source, because he only had knowledge of reading files in general rather than of these letters specifically. Thus, Moore's testimony established the general way in which Rockmore stored correspondence in a reading file. However, he did not testify to any personal knowledge regarding the circumstances surrounding the Stenstrom letters, and his only basis for surmising that they came from a reading file was that they were unsigned and not on letterhead. We think—as did the district court—that the fact that the letters were not on letterhead and were unsigned could mean many things, including that the letters were never mailed. Given the general level of uncertainty regarding whether Stenstrom authored—let alone mailed—the letters at issue, the district court was understandably reluctant to admit the letters. The court noted that "it seems to me that there are a lot of problems with the indicia of reliability, and that really is the bottom line through any test with regard to admission . . . . And to me there's just too many questions about it." We agree that given the lingering questions regarding the letters' authenticity, the district court was well within its discretion when it excluded them because they lacked proper authentication as required by Fed. Rule Evid. 901(a).

IV

For the reasons stated above, we reverse the district court's judgment of invalidity in favor of Micrel. We leave undisturbed, however, the district court's evidentiary rulings, thereby affirming the questions raised by Micrel's cross-appeal. The case is returned to the district court for further proceedings not inconsistent with this opinion.

COSTS

No costs.

AFFIRM-IN-PART, REVERSE-IN-PART, AND REMAND

LINEAR TECHNOLOGY CORP., Plaintiff,

v.

MICREL, INC., Defendant.

No. C-94-1633 MHP

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA

August 19, 1999, Filed

COUNSEL: For LINEAR TECHNOLOGY CORPORATION, Plaintiff: Norman H. Beamer, Mark D. Rowland, Fish & Neave, Palo Alto, CA.

For LINEAR TECHNOLOGY CORPORATION, Plaintiff: Robert C. Morgan, Laurence S. Rogers, Susan Progoff, Maxine Y. Graham, Fish & Neave, New York, NY.

For MICREL, INC., defendant: Robert B. Morrill, Brian D. Ogonowsky, Skjerven Morrill MacPherson Franklin & Friel LLP, San Jose, CA.

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MARILYN HALL PATEL, Chief Judge, United States District Court, Northern District of California.

OPINION

FINDINGS OF FACT AND CONCLUSIONS OF LAW

On May 9, 1994, plaintiff Linear Technology Corporation brought this action against defendant Micrel, Inc., alleging that the MIC 2172 and MIC 3172 products infringed United States Patent No. 4,775,741 ('741 patent) and Reexamination Certificate B1 4,755,741. This action was originally assigned to United States District Court Judge Eugene F. Lynch. Judge Lynch denied Micrel's motion for summary judgment on whether the '741 patent is invalid due to an on-sale bar pursuant to 35 U.S.C. section 102. See Order dated February 26, 1997. In the same order, Judge Lynch bifurcated this action for trial on the issue of whether the '741 patent is invalid due to an on-sale bar, and stayed all other issues for later discovery and trial. See *id.* at 2. On July 15, 1997, the action was reassigned to this court. The court conducted a bench trial on the limited issue of whether the '741 patent is invalid due to an on-sale bar.

Having considered the testimony presented at trial and the other evidence submitted by the parties, the court FINDS for defendant Micrel and enters the following findings of fact and conclusions of law in accordance with its obligations under Federal Rule of Civil Procedure 52(c). Fed. R. Civ. P. 52(c) (requiring judgment under Rule 52(c) to be supported by findings of fact and conclusions of law).

FINDINGS OF FACT

I. The Parties

1. Plaintiff Linear Technology Corporation ("LTC") is a corporation organized and existing under the laws of the State of California and having a principal place of business in Milpitas, California. Jt. Pretrial Conf. Stmt., at 3 ¶ 1.

2. Defendant Micrel, Inc. ("Micrel") is a corporation organized and existing under the laws of the State of California having its principal place of business in San Jose, California. Jt. Pretrial Conf. Stmt., at 3 ¶ 2.

II. Development Of '741 Patent And LT1070

3. The patent at issue in this case is United States Patent No. 4,755,741 (" '741 patent"), entitled "Adaptive Transistor Drive Circuit," as amended by Reexamination Certificates B1 4,755,741 and B2 4,755,741. The named inventor is Carl Nelson and LTC is the assignee of all right, title and interest in the '741 patent. Def. Exh. A-33; Nelson Testimony, 192:25-193:1.

4. Carl Nelson has been employed at LTC since 1981 as a Bipolar Design Manager. Nelson Testimony, 136:3-21. Among his primary duties are designing chips for LTC and the supervision of the design of chips. Nelson Testimony, 136:3-21. Nelson has been designing chips for about twenty-eight years and, during this time, he has been the named inventor on approximately twenty-five patents. Nelson Testimony, 193:1-8. Although not an employee of LTC's marketing department, Nelson assisted the training of salespersons on the types of applications for which LTC's products can be used. Nelson Testimony, 193:1-8.

5. The application that resulted in the '741 patent was filed on November 18, 1986. Def. Exh A-33.

6. The '741 patent originally issued on July 5, 1988. The first reexamination certificate issued on May 14, 1991, following a request for reexamination filed by a third party

on June 1, 1990. The second reexamination certificate issued on December 26, 1995, following additional requests for reexamination filed by a third party and by Micrel on April 28, 1994 and September 9, 1994, respectively. Pl. Exhs. 1-3

7. The '741 patent discloses an "adaptive transistor drive circuit." Def. Exh. A-33 at 1:5-21. The adaptive transistor drive circuit disclosed in the '741 patent describes "switching regulator circuitry" used to provide regulated voltages or currents. Nelson Testimony, 143:1-2.

8. The LT1070 chip manufactured by LTC is a switching voltage regulator invented by Nelson and embodies an aspect of every claim contained in the '741 patent, except for claims 2 and 12. Nelson Testimony, 139:20-141:18; 199:20-200:17. However, the LT1070 switching regulator circuit embodies the inventions claimed in all of the claims of the '741 patent that LTC asserts are infringed by Micrel. Joint Pretrial Conference Statement at ¶ 7. The LT1070 silicon chip initially constructed and tested by Nelson was essentially a functioning version of the '741 patent. Nelson Testimony, at 142:18-25.

9. In essence, the '741 patent "grew out" of Nelson's development of the LT1070 chip. Nelson Testimony, 139:17-19. Figure 5 of the '741 patent illustrates how the invention is used in the LT1070. Nelson Testimony, 198:11-17.

10. Nelson originally designed the LT1070 on paper, but later converted the design as envisioned on paper into silicon or chip form in approximately April 1985. Nelson Testimony, 142:1-20. In an entry dated April 18, 1985, Nelson noted in his workbook that the "silicon looks good," indicating that the chip functioned well enough to run tests on it to determine whether any problems or abnormalities existed in the silicon. Nelson Testimony, at 142:11-17; Def. Exh. A-31, at LIN 01299. At that stage, Nelson was confident that the LT1070 could eventually be made to

work, although he remained uncertain as to whether it would meet all the initial design goals. Nelson Testimony, 212:4-16.

11. Although the LT1070 chip performed "basically" as Nelson had intended it to, he identified an extensive list of problems with the LT1070 chip which had to be "worked out" before it would be fully functional. Nelson Testimony, 194:18-21; Def. Exh. A-31, at LIN 01299. Because of these problems, the LT1070 was not sufficiently "functional enough" to be ready for manufacture. Nelson Testimony, 194:22-195:1. Nelson later made a first "round" of "fixes" to the LT1070 chip. Def. Exh. A-31, at LIN 01311-01314.

12. Despite having constructed a LT1070 chip which was essentially functional, Nelson discovered additional problems with the LT1070 in early November 1985, including a low oscillator frequency, an overlong "delay in the current sense comparator," a "leakage problem in the power transistor," and other "small adjustments." Nelson Testimony, 194:3-196:16; Def. Exh. A-31 at LIN 01331 and 0334. These problems caused delays in the release of the LT1070 to production. Nelson Testimony, 197:12-14.

13. On November 11, 1985, Nelson recorded methods for fixing these problems in the LT1070 in his engineering notebook. Def. Exh. A-31 at LIN 0134; Nelson Testimony, 195:12-197:11. Once these problems were resolved, LTC issued a Release Product Listing ("RPL") for the LT1070 on November 18, 1985. The RPL essentially released the product into LTC's product line. Nelson Testimony, 198:1-7; Def. Exh. A-34.

14. Although Nelson testified that the LT1070 was not ready for manufacturing until well into 1986, LTC "does not dispute that the invention of the '741 patent was reduced to practice before November 18, 1985." LTC's Post-Trial Prop. Findings of Fact and Conclusion of Law, at ¶ 29.

III. Efforts To Sell And Sales

A. LTC's Sales Organizational Structure

15. In 1985, LTC's sales force primarily consisted of independent sales representatives and distributors. Zapf Testimony, 241:7-242:19 (international distributors); Scott Testimony, 447:9-20 (sales force included domestic sales representatives and distributors). LTC's distributors purchased devices from LTC and resold the devices to end-user customers. Zapf Testimony, 241:20-25.

16. In 1985, LTC employed four Area Sales Managers in the United States and two in Europe. Exh. 201; Zapf Testimony, 242:11-25; 336:2-13. The Area Sales Managers were responsible for managing LTC's sales efforts within their sales territories. Zapf Testimony, 242:17-25. LTC's Area Sales Mangers in Europe were Tom Lane and Andreas Meinelt, both of whom reported directly to Zapf. Zapf Testimony, 242:11-25.

17. In 1985, LTC's domestic sales network included twenty-two independent sales representative firms divided into four geographic territories and sixteen independent distributor firms. Pl. Exhs. 55 & 202.

18. In 1985, LTC also had a network of international distributors, acting as both LTC's sales representatives and distributors for LTC's products. Zapf Testimony, 241:7-19. These distributors included Svensk, Jermyn, Amitron, Stolz, Bacher, Neye, Henskes, Success Electric and Eltron. Zapf Testimony, 243:5-244:8.

19. Each of LTC's international distributors had a written distributorship agreement with LTC, containing substantially the same terms as in Exhibit A-70. Zapf Testimony, 267:3-12. Those agreements provided that the contracts were governed by California law. Zapf Testimony, 267:22-268:7; Def. Exh. A-70 at LIN 16445 ¶ 10.1. The

written distributor agreements also provided that the distributors take title to the goods FOB LTC's plant or nearest warehouse duty unpaid, referring to LTC's plant in Milpitas where LTC manufactured its products. Zapf Testimony, 268:8-17; Def. Exh. A-70 at paragraph 4.3, LIN 16437.

20. LTC's international distributors purchased products from LTC and resold those products to their own customers in their territories. Zapf Testimony, 241:20-25. To purchase the products, the distributors sent their orders to LTC in California by telex. Zapf Testimony, 260:18-24. LTC received these orders at its plant in Milpitas, California. Zapf Testimony, 260:25-261:2. LTC accepted those orders in Milpitas and entered the orders into LTC's bookings system in Milpitas. Zapf Testimony, 261:3-8. Once the orders were entered into LTC's bookings system, acknowledgments were automatically generated by the system. Zapf Testimony, 261:9-13. Those acknowledgment forms were then sent back to the international distributors, acknowledging that the orders had been entered and booked by LTC. Zapf Testimony, 261:14-17. The international distributorship agreement provides that "all order for LINEAR Products from DISTRIBUTOR are subject to acceptance." Def. Exh. A-70, at LIN 16437 ¶ 4.4.

21. LTC's acknowledgments included an express provision that the purchaser is to take title to the goods in Milpitas, California. Def. Exh. A-74; Zapf Testimony, 261:21-262:25. Defendant's Exhibit A-74 is typical of the acknowledgment forms sent by LTC in 1985.

22. Invoices on shipments were issued by LTC from California. Zapf Testimony, 266:12-17.

B. LTC's Data Sheets

23. In 1985, LTC used product data sheets as one of its primary selling tools to provide information to potential customers about LTC's products in order to enable

manufacturers to use LTC's component products in their own products. Nelson Testimony, 138:25-139:2; Def. Exh. A-32 [Nelson Decl.] at ¶ 7.

24. The LT1070 "preliminary" data sheet lists features of the LT1070 and provides technical information about the device, its applications, its electrical characteristics and its operation. Def. Exh. A-4 [LT1070 Preliminary Data Sheet]. The information is important to customers and was designed to grab the attention of customers and their engineers. Nelson Testimony, 163:8-25;164:13-166:12.

25. Nelson explained that a preliminary data sheet is intended to be an introduction of what the part does, but does not "typically" contain full information on certain particulars. Nelson Testimony, 215:13-22. The preliminary data sheet shows customers what the product will do so that if the customer is at a point in their design phase when they are trying to decide how to do a particular function, the customer can look at the preliminary data sheet and determine whether they think the device would work for them. Nelson Testimony, 215:23-216:6. If a customer determined that the device would have some applicability to their needs, it could request samples and "a real data sheet" from LTC. Nelson Testimony, 216:1-7; see Def. Exh. A-12 [March 1985 Newsline], at LIN 06890.

26. Sales representative Mike Walters testified by deposition regarding the process he used to sell component products, such as those manufactured by LTC. In order to sell a product of a company like LTC, Walters stated that generally the approval of an employee in the purchasing company's engineering and purchasing departments was necessary. Walters Depo., 13:17-21. This process of getting a design engineer at a company to use a component product in one of the engineer's applications is known as a "design-in." Walters Depo., 14:10-20; 16:3-18; Stenstrom Testimony, 32:23-35:4.

27. Walters also testified that in the course of his business he sometimes used preliminary data sheets to generate interest in a customer for a part. Walters Depo., 40:4-13. According to Walters, a "preliminary data sheet" is "a data sheet with specifications on a part that says 'preliminary' some place on it, meaning that to the customer it's probably not in production and something might change." Walters Depo., 39:24-40:9.

28. Nelson wrote the preliminary LT1070 data sheet, drafting the text and drawings to be included. Nelson Testimony, 160:9-15; 166:16-167:3. LTC worked with an outside "art house" to prepare the proof sheet for the preliminary LT1070 data sheet. Nelson Testimony, 167:2-9; Williams Testimony, 115:9-15. The drafts of the preliminary data sheet were subject to a process of internal review, a process which could take as long as three or four months. Nelson Testimony, 168:2-14.

29. On October 14, 1985, LTC initiated a purchase order for the printing of 500 copies of the LT1070 data sheet by Globe Printing Company. Def. Exh. A-55 [Globe Data Sheet File], at p. G0013; Williams Testimony, 105:25-106:23. On October 21, 1985, LTC provided Globe with the artwork for the Preliminary LT1070 data sheet, along with a photocopy. Williams Testimony, 106:24-107:3; 107:22-108:19.

30. Globe was not responsible for preparing any of the text, diagrams, or layout of the LT1070 data sheet, other than masking out page numbers. Williams Testimony, 109:18-110:20. Globe simply took the original artwork as received from LTC and printed it in paper form. *Id.* Globe delivered 500 copies of the Preliminary LT1070 data sheet to LTC on October 25, 1985. Def. Exh. A-55 [Globe's Data Sheet File, Delivery Record] at p. G0007; Williams Testimony, 109:11-17.

C. LT1070 Information Conveyed To Sales Force

31. Robert Scott was LTC's Product Marketing Manager in 1985. Scott Testimony, 442:7-15. In the Spring of 1985, Scott informed LTC's independent sales representatives that a product named the LT1070, a switch mode control chip, would be coming out. Scott Testimony, 444:15-24. Scott anticipated that the sales representatives and international distributors would then talk with customers and familiarize themselves with companies that might use the LT1070. Scott Testimony, 445:10-16. At this point, LTC began its efforts to commercialize the inventions of the '741 patent embodied within the LT1070.

32. On July 21-23, 1985, LTC hosted a three-day sales conference at the Marriott Hotel in Santa Clara, California. Def. Exh. A-13; Zapf Testimony, 269:22-24. All LTC independent sales representatives and international distributors were urged to attend, and many did so. Zapf Testimony, 271:4-16; Def. Exh. A-13 [Sales Conference Binder at ¶ 5-7, listing attendees]; Def. Exh. A-19 [Declaration of Robert Scott at P 4] (purpose of meeting was "to inform those attending of new and future LTC products, including . . . unannounced products which were still being developed but which were not yet available for sale"). The domestic sales representatives who attended the sales conference included Richard Beals and Dan Zenor of Gassner & Clark Co. Def. Exh. A-13 [Sales Conference Binder at ¶ 5-7, listing attendees]. The international distributors who attended included representatives from Neye, Svensk, Microlog, Henskes and Stolz. Def. Exh. A-13; Zapf Testimony, 271:13-16, 272:16-273:2.

33. Two of the presentations during the July 1985 sales conference discussed the LT1070: (1) a Voltage Regulators and References clinic, and (2) a Marketing clinic taught by Robert Scott. Def. Exh. A-20 [July 1985 Sales Conference Binder at LIN 07020] (listing Carl Nelson as the presenter at

the VR & REF Clinic); Def. Exh. A-13 [Sales Conference Binder], at GC0030 and GC00137.

34. During the Voltage Regulators and References Clinic, an application circuit diagram was displayed to the attendees showing how the LT1070 could be used. Def. Exh. A-13 [Sales Conference Binder at GC0136-37]. Richard Beals, an independent sales representative, sketched the LT1070 application circuit into his copy of the sales conference binder. Beals Depo., 45:12-48:16. The international distributors also attended the Voltage Regulators and References clinic and received the same training at the session given to everyone else. Zapf Testimony, 275:20-276:7.

35. During a Marketing clinic, Robert Scott discussed the LT1070 as an upcoming product. He informed LTC's sales representatives and international distributors that LT1070 data sheets and samples were expected in the Fourth Quarter and that production quantities were expected by the First Quarter. Def. Exh. A-13 [Sales Conference Binder at GC 0030]; Scott Testimony, 447:14-25; 450:8-15.

36. Scott presented the information about the LT1070 so that the sales representatives and international distributors would identify and familiarize themselves with customers who might be able to use the LT1070. Scott Testimony, 448:1-4. The sales representatives and distributors were allowed and expected to discuss the LT1070 and its function with customers, and they were asked to explore possible applications for the LT1070. Scott Testimony, 448:9-18.

D. Sales Representatives Promotion Of The LT1070

1. Samples

37. Samples were provided free of charge to LTC's customers as part of LTC's Marketing program and were generally shipped out of LTC's finished goods inventory. Berry Testimony, 403:5-20. Sample requests came from sales representatives and ordinarily identified the customer

for whom the samples were intended as well as the anticipated future usage by the customer. Zapf Testimony, 247:17-23; 249:1-2, 10-19; 254:11-14. Along with data sheets, samples were among the primary means of introducing a product to customers. Walters Depo., 52:13-19. Customers could use samples to test whether a LT1070 "design-in" functioned properly. Walters Depo., 64:8-23.

38. Following the July 1985 sales conference, from July 17 to November 18, 1985, LTC received 26 separate requests for LT1070 samples from its domestic and international sales force, 25 of which identified the specific customer for whom the samples were intended. Def. Exh. A-79 [summary chart of sample requests]. Specifically:

(a) On July 17, 1985, domestic sales representative Tom Szwajkos ordered five LT1070s for customer Burroughs.

(b) On October 8, 1985, domestic sales representative Harvey King ordered three LT1070 samples for U.S. customer "HP." Foreign Area Sales Manager Tom Lane also ordered two LT1070 samples each for customers Racal, GEC AV/MAILSEA, Eurotherm and Datron.

(c) On October 17, 1985, domestic sales representative Nancy Lee ordered two LT1070 samples for customer "Sperry Mil."

(d) On October 25, 1985, foreign Area Sales Manager Tom Lane ordered two LT1070s samples customer Marconi. Def. Exh. A-6 [December 1985 Sample History].

(e) On October 28, 1985, domestic sales representative Bill Highsmith ordered two LT1070 samples for U.S. customer "DCA."

(f) On October 30, 1985, domestic sales representative Allan Horne placed two orders for two LT1070 samples for U.S. customers Wave-Tek and General Electric.

(g) On October 31, 1985, domestic sales representative Gino Skulick ordered two LT1070 samples for U.S.

customer Bentley Nevada, and foreign sales representative Tony M. ordered two LT1070s for customer Instem.

(h) On November 5, 1985, domestic sales representative Mike Harrison placed two orders for two LT1070s for U.S. customer VG Systems.

(i) On November 6, 1985, domestic sales representative Steve Edwards ordered three LT1070 engineering samples for U.S. customer Harris Dracon.

(j) On November 8, 1985, foreign sales representative Schneider placed two orders for five LT1070s for customer Gittman.

(k) On November 11, 1985, domestic sales representative Bob Stenstrom ordered five LT1070 samples for Marshall Electric.

(l) On November 13, 1985, foreign sales representative Mundry ordered four LT1070s for customer Siemens and two LT1070s each for customers Becker, Schaffer and Deutronic.

(m) On November 14, 1985, foreign sales representative Bruno Donnou of Jermyn ordered two samples of two versions of the LT1070 for customer Visionor.

(n) On November 15, 1985, domestic sales representative Dan Zenor ordered five LT1070 engineering samples "for Dick Collins visit."

39. On November 15, 1985, LTC's Samples Coordinator, Derrick Berry, pulled the five LT1070 engineering samples for Dan Zenor and the three LT1070 engineering samples for Steve Edwards for customer Harris Dracon. Def. Exh. A-5 [November 1985 Sample History]; Berry Testimony, 423:3-424:20. Those engineering samples were sent to the sales representatives on November 21, 1985. Pl. Exh. 203.

40. In summary, LTC received 26 requests for a total of 71 LT1070 samples before the critical date. At least eight LT1070 samples were packaged for shipment before

November 18, 1985, and were shipped to the sales representatives on November 21, 1985. Pl. Exh. 203.

2. Other Commercial Promotion By Sales Representatives

41. Richard Collins was LTC's Area Sales Manager for the Central Area in 1985. Collins Depo., 11:9-13; 13:13-14:6. Part of Collins' duties included selecting a sales representative firm to represent LTC in Minnesota. Collins looked for a representative firm that was knowledgeable about analog circuits, had a good relationship with the Linear Technology distributor, and had a good knowledge of the customer base. Collins Depo., 20:21-21:2; 21:7-17. Collins intentionally sought out smaller representative firms, with three to four salespeople, that were "hungry" in how aggressive they were in the marketplace. Collins Depo., 23:8-17. Collins selected Rockmore Sales Corporation ("Rockmore") to be LTC's independent sales representative in Minnesota for those reasons. Collins Depo., 23:20-25. Collins hired Rockmore in mid-summer, 1985. Collins Depo., 21:25-22:6; Stenstrom Testimony, 32:19-22.

42. John Moore was one of the three salesmen at Rockmore Sales Corporation. On September 26, 1985, he met with Ron Ebert, a design engineer at customer Sperry, and discussed the LT1070 with him. Ebert expressed interest in the LT1070, interest which Moore recorded in his notebook. Def. Exh. A-48 [Moore Notebook # 83], at RSC 0166; Moore Depo., 281:14-19. Moore gave Ebert a copy of what he called the Preliminary LT1070 "spec" at that meeting. Moore Depo., 189:10-190:1.

43. Thereafter, on September 30, 1985, Moore sent a letter to Ebert regarding LTC's products. Def. Exh. A-42; Moore Depo., 84:23-85:1. Moore enclosed a second copy of the literature regarding the LT1070, stating "I've also enclosed another copy of the PRELIMINARY LT1070 spec for your use." Def. Exh. A-42.

44. In his deposition, Moore testified that he believed the "spec" he referred to in his letter to Ebert was not the Preliminary LT1070 data sheet that is Defendant's Exhibit A-4. To his memory, the "spec" was a one-page, two-surface document with "preliminary" in diagonal in red. He also testified that he could not get his hands on any samples, specifications, or pricing for the LT1070. Moore Depo., 330:25-331:11. Moore candidly admitted, however, that he could be wrong about his recollection of the document he enclosed in his letter, and he volunteered that his memory "is not always the best thing in the world." Moore Depo., 285:14-21.

45. However, Moore used the term "spec" twice in his September 30, 1985 letter to Ebert, once in reference to the "Preliminary LT1070 spec" and once in reference to the "LT1038 twelve-page spec." Def. Exh. A-42. The 1986 Linear Data Book contains a copy of the twelve-page data sheet for the LT1038 and a copy of the preliminary data sheet for the LT1070. Def. Exh. A-65 at 3-53 & 10-14. That same LT1038 data sheet is referenced in Linear's Newslines in January and March 1985. Def. Exhs. A-11 and A-12. Based on this evidence, the court finds that Moore used the term "spec" in his September 30, 1985, letter to refer to the preliminary LT1070 data sheet. The court concludes that Moore enclosed a second copy of the Preliminary LT1070 data sheet, Def. Exh. A-4, in his September 30, 1985, letter to Ebert at Sperry.

46. Mike Walters, another Rockmore salesman, testified that he believed he and his colleagues at Rockmore had discussed the LT1070 with customers prior to November 18, 1985. Walters Depo., 85:24-86:9.

47. Robert Stenstrom was the third salesman working for Rockmore in 1985. Stenstrom specifically recalls the LT1070 and remembers that Richard Collins briefed the Rockmore salesmen on the LT1070 and the rest of LTC's

product line early on in Rockmore's relationship with LTC. Stenstrom Testimony, 38:8-14; 39:1-3.

48. After Stenstrom learned of the LT1070, he actively promoted the LT1070 to his assigned accounts. Stenstrom Testimony, 39:17-40:1. Stenstrom testified that he promoted the LT1070 to Honeywell, Lake Center Industries, and to a number of other accounts throughout the territory. Stenstrom Testimony, 39:17-24. He promoted the LT1070 to the customers in his territory by a number of direct visits with customers, and sometimes, although rarely, with written communications. Stenstrom explained that his style of selling the product was to visit with the customers directly and answer, as best he could, questions that they might have, and on the spot describe the product beyond what the data sheet might be able to do. Stenstrom Testimony, 43:8-15. Stenstrom further testified that he sent copies of the LT1070 data sheet to Bob Pearson, a design engineer at Honeywell, on or about October 1, 1985, and spoke with other Honeywell engineers at that time. Stenstrom Testimony, 44:8-19; 50:2-4. Additionally, Stenstrom testified that in September and October of 1985, he sent copies of the LT1070 data sheet to both Eben Ives and Dave Shonts, design engineers at Onan Corporation. Stenstrom Testimony, 51:20-52:3; 54:3-9; 54:25-56:2.

49. By October 18, 1985, Stenstrom also was actively encouraging his colleagues to promote the LT1070 to their accounts. On that date, he wrote a memorandum to Mike Walters and John Moore stating:

> WE REALLY MUST START BROADENING OUR ACCOUNT BASE NOW. THE LT1070 CAN BE SOLD ANYWHERE; BEST DAMNED POWER SUPPLY PART IN HISTORY.
>
> THE LT1070 IS A PERFECT PART FOR RESIDENTIAL.

Def. Exh. A-47; Stenstrom Testimony, 59:17-63:16.

50. Dan Zenor of Gassner & Clark was also a LTC independent sales representative in 1985. Zenor testified by way of his deposition that he had met with Dave Conway, a design engineer at Norand, regarding the LT1070. Norand Corporation was one of the companies of which Zenor was aware that might have had a use for the LT1070. Zenor Depo., 112:10-14. While Zenor could not recall the specific details of the meeting, he testified that he had no reason to believe the meeting did not occur on approximately November 1, 1985. Zenor Depo., 109:7-110:8. Although Zenor did not specifically recall asking Conway to "design in" the LT1070 prior to November 1, 1985, he confirmed that he did seek a design-in for the LT1070 after that date. Zenor Depo., 112:15-113:9.

51. David Conway also testified, by deposition, about his meeting with Zenor regarding the LT1070 in the fall of 1985. Conway recalled meeting with Zenor and confirmed both that Zenor had discussed the LT1070 with him and that Conway had evaluated the device. Conway Depo., 32:5-22. However, Conway states that Zenor did not have any paper or other materials regarding the LT1070 with him when the two briefly discussed the device. Conway Depo., 32:1-33:1.

52. Collins, the LTC Area Sales Manager for the Central Area, testified that during this time frame, he sought to keep the sales representatives focused on selling product that they had available to them, because spending a great deal of time trying to sell an unreleased product was a waste of effort when LTC needed revenue. Collins Depo., 105:15-24. Collins recalled that there were many times he had to focus the sales representatives in his territory to sell what they had. Collins Depo., 106:2-3. He confirmed that he had had such conversations with his sales representatives regarding the LT1070, although he could not put a specific time frame on those conversations. Collins Depo., 106:25-107:5. Collins confirmed that Rockmore was one of the representative firms that he felt had a tendency to "lose focus" on

generating revenue immediately and that he had to try and keep them focussed on selling products that were available. Collins Depo., 148:8-13. Collins' testimony confirms that some of the sales representatives in his territory were promoting the LT1070 to their customers in 1985, before the product was officially available.

E. LTC's Further Communications to the Sales Force

53. On September 5, 1985, Scott, LTC's Product Marketing Manager, sent a telex to independent sales representative Dan Zenor, seeking assistance in determining a sales price for the LT1070. Def. Exh. A-21 [September 5 Scott Telex]. In the telex, Scott listed the functions and features of the LT1070 and asked Zenor to obtain price information from users. Def. Exh. A-10. After receiving the telex, Zenor listed design engineers for certain customers across the top of the page, and at the bottom of the page, someone wrote "$ 6-10." Zenor Depo., 83:8-90:16.

54. The description of the functions and features of the LT1070 in Scott's September 5 telex to Zenor is highly similar to the "Description" of the LT1070 in the Preliminary LT1070 data sheet. Compare Def. Exh. A-21 with Def. Exh. A-4. The features are listed in virtually the same order and convey substantively the same information. Nelson Testimony, 175:11-180:13. Scott confirmed that he obtained the information to include in his telex from the engineering department, probably from the same person or group that created the LT1070 data sheet. Scott Testimony, 459:4-7; 469:3-9.

55. On September 19, 1985, LTC's Director of International Sales, Hans Zapf, sent a telex from his office in California to LTC's European distributors regarding an electronics industry trade show to be held in Paris, the Salon des Composants. Def. Exh. A-75. Zapf encouraged the distributors to attend a product update presentation during which he would discuss the LT1070, which he described as

"LTC's brand new switched mode power supply circuit which will be a true industry first." Def. Exh. A-75; Zapf Testimony, 281:17-282:20.

56. Zapf also discussed the LT1070 prior to the critical date in his Quarterly Newsletter to the international distributors which he prepared in, and sent from, California. Zapf Testimony, 269:5-17; 283:17-284:1.

57. On October 17, 1985, Zapf sent another telex from California to LTC's European distributors regarding the LT1070 and the upcoming trade show in Paris. Def. Exh. A-76. These distributors included Amitron, Success Electric, Bacher, Neye, and Stolz, each of whom later placed orders for LT1070s. In the telex, Zapf stated "as I indicated in my quarterly newsletter, I will give a product update on Wednesday, November 6th, focusing on the switched capacitor filters and the exciting new LT1070 switch mode regulator which is a true industry first product." Def. Exh. A-76; Zapf Testimony, 282:21-284:1.

58. Zapf began making preparations to attend the Paris trade show, and arranged for a poster describing the features of the LT1070 and hundreds of copies of the Preliminary LT1070 data sheet to be sent to Paris for use during the show. Zapf Testimony, 277:16-278:4; 278:12-280:3 [poster] 327:11-14 [data sheet]. Zapf prepared several transparencies depicting the features of the LT1070 for use in promoting the LT1070 to the distributors in Paris. He assembled the transparencies from materials given to him by Nelson. Zapf Testimony, 284:5-13; 285:7-12; Def. Exh. A-26 at Exh. C [transparencies attached to Zapf Declaration].

59. At this time, Zapf was under the full impression and expectation that the LT1070 would be released prior to the Paris show. Zapf Testimony, 281:2-8. That same expectation was shared by LTC's sales force. Zapf Testimony, 281:7-8

60. On or about November 1, 1985, LTC published and distributed its November 1985 Newsline. Scott Testimony,

491:20-22; Def. Exh. A-14 [November Newsline]. LTC's Newslines were distributed to all of LTC's domestic sales representatives and international distributors. Scott Testimony, 490:19-491:5. In that November Newsline, Scott provided a full column article highlighting the LT1070:

> Looking ahead there are three new products that many of you have been clamoring to get hold of: the LT1070, 5 Amp and the LT1071 2.5 Amp High Efficiency Switching Regulator and the LT1030, RS-232 Quad Line Driver.
>
> To sharpen your memory just a bit, the LT1070 promises to be a big hit at accounts facing the decision of whether to 'make or buy' their next power supply. Carl Nelson's goal in designing the LT1070 series is to provide the user a high performance-easy-to-use-switching regulator requiring very few external components, at a very competitive cost compared to conventional power supply designs. Our first look at samples says the LT1070 series won't disappoint anyone . . . . Be on the watch next month for a full product bulletin including details on pricing, samples, production availability and media coverage introducing the LT1070 and LT1071.

Def. Exh. A-14 at LIN 15320.

61. Scott testified that his comment about samples was meant to communicate to the sales force that actual silicon LT1070 chips were available, had been looked at, and were functioning. Scott Testimony, 492:22-493:18.

62. The November Newsline also contained a "Linear Technology Product Design Help List" from LTC Vice President Bill Ehrsam. Scott Testimony, 493:23-494:5. LTC

published the Help List to aid sales representatives whose customers experienced difficulties in using the listed devices. Def. Exh. A-14 at LIN 15318. LTC encouraged sales representatives to have their customers' engineers contact the LTC design engineer directly for assistance. Def. Exh. A-14. The list included the LT1070 and identified Nelson as the LT1070 designer. Scott Testimony, 494:22-25.

63. A few days later, on November 6, 1985, Scott sent a telex regarding the LT1070 to LTC's Area Sales Managers, including the two European sales managers, stating:

> AS YOU KNOW, WE HAVE A BIG PUSH SCHEDULED FOR THE LT1070 WITH MAGAZINE COVER STORY AND OTHER ARTICLES AND PRESS RELEASES BEGINNING IN EARLY DECEMBER.
>
> **SEVERAL REQUESTS FOR SAMPLES AND EVEN PRODUCTION ORDERS HAVE BEEN RECEIVED. WE HAVE LT1070CK SAMPLES BEING READIED FOR SHIPPING DURING THE NEXT WEEK.** THE QUANTITY IS LIMITED SO ADVISE THAT THEY BE USED CAREFULLY. LARGE QUANTITIES OF THE LT1070CK AND LT1070CT ARE ROUGHLY 6 WKS AWAY FROM SHIPMENT WHICH STILL ALLOWS ANSWERING OF REQUESTS AFTER THE DECEMBER RELEASE WITHIN A REASONABLE TIME. DURING THE NEXT 6/WKS, **WE ASK THAT YOU CAREFULLY SELECT THE CUSTOMERS YOU WANT TO GET THE SAMPLES WE HAVE IN STOCK** AND LIMIT THE QUANTITIES. FROM A PERFORMANCE

> VIEWPOINT, THE 1070 LOOKS EXCELLENT. DON'T FORGET THE 1071, 3 AMP VERSION OF THE 1070. SEE NEWSLINE FOR NOVEMBER.
>
> **ORDERS FOR LT1070 CAN BE BOOKED** HOWEVER IT WILL BE ABOUT 4 WKS BEFORE FORMAL SCHEDULES CAN BE ACKNOWLEDGED. **CALL IN TO MARKETING FOR SPECIFIC DEALS WHERE YOU HAVE DESIGN-INS NEEDING PARTS SOONER THAN 4-6 WKS.**

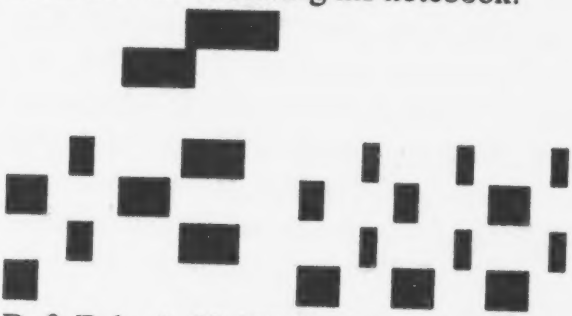
Def. Exh. A-10 [November 6 Scott Telex] (emphasis added).

64. Scott testified that his November 6, 1985 telex was in error when it said that "orders can be booked" because the product had not yet been released at that time. Scott Testimony, 497:3-6 and 629:13-23. Scott, however, did not testify that he withdrew the memorandum or informed the recipients that the memorandum was in error. Scott did not testify that the November 6 telex was erroneous in stating that sample requests and production orders had been received, that samples were being readied for shipment the following week, or that as of November 6, he expected the sales force might already have had customer design-ins needing LT1070s sooner than four to six weeks. See Scott Testimony, 496:11-497:20.

F. Price Information

65. LTC had an initial price range in mind when it began designing the LT1070. Zapf Testimony, 348:1-11. By September 5, 1985, LTC had a specific price range in mind for the LT1070 and solicited input from sales representatives to determine how much a user would be willing to pay for it. Def. Exh. A-21. By October 28, 1985, Scott had informed at least one LTC Area Sales Manager, Herb Wallack, of the

anticipated pricing for the LT1070. On that date Wallack recorded the following his notebook:



Def. Exh. A-58 [Wallack Notebook] at LIN 6848. Wallack testified in a declaration that these notes reflect a conversation he had with Scott, where Scott informed Wallack of the pricing for the LT1070. Def. Exh. A-71 at PP 8-11.

66. Wallack testified that in his 1985 notebook, he contemporaneously recorded information and thoughts about his business activities conducted on behalf of LTC. Def. Exh. A-71 at P 3. He also explained that a substantial portion of the entries in his notebook reflect planning for meetings with distributors, sales representatives and customers. Id. Wallack further stated that he did not pass on the pricing information to any of LTC's sales representatives or distributors, but rather, the recorded pricing information lay the groundwork for "knowing what was coming in the future." Def. Exh. A-71 at P 10.

67. On or about December 1, 1985, LTC published its December 1985 Linear Newsline which LTC contends first "announced" the LT1070 to the sales force. Def. Exh. A-57 [December Newsline]; Zapf Testimony, 349:18-350:17; Scott Testimony, 626:9-24. In an article entitled, "Introducing The LTC1070 By LTC," LTC notified its employees that it is "pleased to announce the LT1070" and goes on to explain the "unique features" of the LT1070. Def. Exh. A-57 [December Newsline], at LIN 15333. The December Newsline also contains pricing information for

the LT1070CT, specifically stating that "price in 100's for the LT1070CT (TO 220) is $ 7.45," and further notifies employees that "preliminary data sheets are available now with the final data sheets due in February (Remember, this data sheet is HUGE!!)." *Id.* at LIN 15334. Moreover, although LTC points to the "pleased to announce" language in the December Newsline, that Newsline issue contains no express statement that the LT1070 was a released product and that LTC's sales representatives could solicit orders for sale.

68. Although LTC issued a press release on the LT1070 on January 15, 1986, in which it published price information and stated that "sample quantifies are available now; full production quantities will be available in February 1986," such information was available long before January 15, 1986. See Pl. Exh. 13.

69. Nonetheless, LTC's distributors did not need to know the prices of LTC's products before submitting purchase orders. Zapf Testimony, 346:17-347:13.

G. LTC's Promotion of The LT1070 Directly To End-User Customers

70. In September of 1985, LTC's Vice President of Design Engineering Robert Dobkin visited two LTC customers and discussed the LT1070 with them. Scott Testimony, 451:10-19; Def. Exh. A-19 [Scott Decl.] at ¶ 8. Although Scott testified that Dobkin did not discuss the specifics of the LT1070 during these two customer visits, Scott when questioned was unable to provide the court with any particulars as to how he had determined the nature or extent of Dobkin's discussions with the LTC customers regarding the LT1070. Scott Testimony, 451:4-452:19; Def. Exh. A-19 [Scott Decl.] at ¶ 8. Dobkin did not testify at trial and therefore did not deny or explain these events.

71. On approximately September 18, 1985, Carl Nelson met in New York with the editorial staff of Electronic

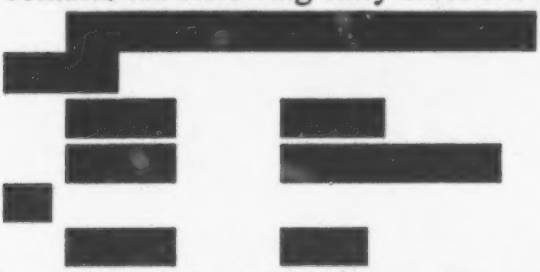
Design magazine regarding a cover story featuring the LT1070, to be published in the December 26, 1985 edition. Def. Exh. A-58 [Wallack Notebook], at LIN 6807; Def. Exh. A-59 [Wallack Expense Report] (showing the 9/18/85 meeting with Nelson re: LT1070); Def. Exh. A-1 [December 26, 1985 Electronic Design Article]. Although Nelson could not remember the specific date of the meeting at trial, he did not dispute Wallack's notebook entry, and admitted that the meeting occurred several months before the December 26, 1985 cover date. Nelson Testimony, 156:14-158:5. LTC did not present any evidence at trial to controvert this evidence. On December 5, 1985, LTC Vice President Bill Ehrsam instructed the Area Sales Managers to refrain from discussing the LT1070 with the press until the Electronic Design article was published because LTC and Electronic Design had entered into an "exclusivity commitment." Pl. Exh. 12.

72. Nelson testified that as part of his job he visited customers and gave seminars about LTC's products. Nelson Testimony, 137:14-138:6. In those seminars, he taught customers' engineers how to use LTC's chips so that the engineers would design LTC products into the customers' own products, and LTC would wind up selling chips. Nelson Testimony, 138:7-13.

73. Nelson confirmed that he has given seminars to customers on the LT1070 (Nelson Testimony, 138:16-18) and that he has traveled in New York with Wallack. Nelson Testimony, 152:15-19. Wallack's 1985 notebook contains two entries on a page between pages dated 9/23 and 9/24: "1070 Monday" in close proximity to "Presentation/Nelson" and "Data General" in juxtaposition with "LT1070." Def. Exh. A-58 [Wallack Notebook] at LIN 06815, 06820 and 06828. Nelson did not recall one way or the other whether he made a presentation on the LT1070 to Data General in September 1985. Nelson Testimony, 150:13-18. Wallack, presently an LTC employee, did not testify or otherwise

explain his notebook entries. See Zapf Testimony, 325:7-15. Despite the scattered and disjointed nature of Wallack's notebook entries, it is reasonable to read the two phrases in conjunction and conclude that Wallack's notes refer to a customer seminar on the LT1070 given by Nelson in September, 1985.

74. Nelson recalled being at the IBM Research Triangle facility to give a seminar on LTC products, but could not recall the date or whether he discussed the LT1070. Nelson Testimony, 158:15-24; 159:22-25. Wallack's notebook contains the following entry dated 9/24:



Def. Exh. A-58 [Wallack Notebook] at LIN 06828. Nelson did not recall one way or the other whether he gave a seminar, including the LT1070, in September, 1985, at IBM Research Triangle. Nelson Testimony, 159:18-21. Wallack did not explain his notebook entries through testimony procured by either party. Given Nelson's inability to provide the court with any particulars regarding any seminars given at IBM Research Triangle, it is reasonable to conclude that Wallack's notes refer to a customer presentation or seminar given by Nelson on the LT1070 at the IBM Research Triangle facility in September, 1985.

75. In October 1985, Carl Nelson gave Nello Sevastopoulos information relating to the LT1070, which Sevastopoulos then used to create viewgraphs to present to customers. Sevastopoulos Testimony, 357:15-358:12; 367:17-22; Def. Exh. A-3 [Sevastopoulos Decl.] at ¶¶ 3-4 & Exhs. A-1 to A-10. Although Sevastopoulos did not recall receiving a preliminary data sheet from Nelson, he did recall

receiving the information on loose sheets of paper. Sevastopoulos Testimony, 358:5-12, 359:10-15. The information in the viewgraphs he prepared contained much of the information that was included in the LT1070 preliminary data sheet, including the Features, the Applications, the Block Diagram, the Maximum Power Output graph, and the Typical Application drawing. See Sevastopoulos Testimony, 361:6-367:16.

76. On October 29, 1985, Sevastopoulos visited customer Standard Radio in Sweden and discussed the LT1070 with several of its engineers. Def. Exh. A-3 [Sevastopoulos Decl.] at ¶¶ 5-7; Sevastopoulos Testimony, 371:15-372:15. During this visit, Sevastopoulos presented several of the viewgraphs he prepared from the materials he received from Carl Nelson. Def. Exh. A-3 [Sevastopoulos Decl.] at ¶¶ 5-7; Sevastopoulos Testimony, 371:15-372:15.

77. From November 4-8, 1985, LTC participated in the Salon des Composants electronics industry trade show in Paris. LTC displayed the poster of the LT1070; however, the shipment of copies of the LT1070 preliminary data sheet was lost in transit to the Pads trade show Zapf Testimony, 326:23-327:10; 328:1-13, 342:9-17; Def. Exh. A-73 [LT1070 poster]. The poster included some of the same operation and application information that appears in the LT1070 data sheet. Zapf Testimony, 278:12-15, 279:1-15. Nothing on the poster indicated that the LT1070 was not yet available or that the LT1070 was an unreleased product. Def. Exh. A-73 [LT1070 poster]; Zapf Testimony, 279:23-25, 280:1-3. During the show, Sevastopoulos spoke with a trade show attendee about a specific application for the LT1070. Sevastopoulos Testimony, 377:25-378:10; Def. Exh. A-3 [Sevastopoulos Decl.] at ¶ 11.

78. Zapf also held a new product update meeting in Paris, France on November 6, 1985, which several foreign distributors and sales representatives attended. Zapf Testimony, 330:11-25. At this meeting, Zapf told the

distributors about the LT1070, how to look for customers in Europe, what type of customers would use the LT1070, and about the key features of the LT1070. Zapf Testimony, 338:11-339:4. Zapf further testified that he told the attendees that the information regarding any unreleased products disclosed at the meeting was confidential. Zapf Testimony, 339:1-4. Zapf also testifies that although LTC employees attending the Paris trade show were initially operating under the assumption that the LT1070 would be a released product they learned prior to the show that it would not be released. Zapf Testimony, 329:14-21. However, he does not remember how he learned that the LT1070 would not be released prior to the trade show. Zapf Testimony, 329:14-21.

79. On November 11, 1985, Sevastopoulos visited Thorn-EMI, a customer in England, and discussed the LT1070 with several of its engineers. Def. Exh. A-3 [Sevastopoulos Decl.], at ¶ 13); Sevastopoulos Testimony, 378:11-379:8.

80. Although the Salon des Composants trade show and the presentations to Standard Radio and Thorn-EMI were not held within the United States, LTC's actions in promoting the LT1070 on those occasions in early November 1985 is contemporaneous evidence of LTC's actual sales practices with respect to the LT1070 prior to the critical date. In particular, these events establish that it was not against LTC's company practice to commercially promote the LT1070 to customers before the LT1070's "official release" on November 18, 1985.

81. From November 19-22, 1985, LTC attended the WESCON '85 electronics industry trade show in San Francisco and distributed copies of its 1986 Linear Databook. That data book included the Preliminary LT1070 data sheet. Def. Exh. A-65; Scott Testimony, 627:2-4, 19-25.

82. According to LTC, prior to the December Newsline, there was no announcement to the sales force that the

LT1070 had been released or that it was officially available for sale. Zapf Testimony, 323:24-324:10. However, testimony revealing that LTC accepted orders for the LT1070 prior to December 1, 1985, casts significant doubt on LTC's claim that the December 1, 1985, issue of Newsline was the first time LTC informed its independent sales representatives and/or distributors that they could promote the LT1070 to end-user customers.

H. Pre-Critical Date Receipt of Orders For LT1070s By LTC

83. Serena Ann Lucey, a Customer Service Representative for LTC, testified that in 1985, LTC received purchase orders from its customers, often by fax or telex. Lucey Testimony, 545:8-9. Each of those purchase orders contained "line items" identifying the specific products and quantities the customer desired to purchase. Lucey Testimony, 549:19-550:5.

84. In 1985, LTC sometimes received requests from customers for products that were about to be released but which had not yet been formally released by the company. Those orders could not be entered onto LTC's order entry system at the time they were received because the computer system did not accept entries for part numbers it did not recognize. Scott Testimony, 501:3-23; Lucey Testimony, 551:4-14. Part numbers were not added to the system library until the device was released.

85. When LTC received an order for a product that was not yet formally released, the Customer Service representative first checked with Marketing to determine the status of the product, Lucey Testimony, 571:19-572:25; 578:8-13. If the product was soon to be released, or expected to be released within the quarter, the Customer Service representative entered a notation into the bookings database for that order, listing "will advise" in the part number description column. *Id.* Typically, the "will advise" entries were also listed with a quantity of "1" because the bookings

system required some quantity to be entered. Lucey Testimony, 566:1-4.

86. If the incoming order was for a product that was not expected to be released within 90 days, LTC would not have entered the "will advise" notation to track the order. Instead, LTC would have sent the order back to the customer. Lucey Testimony, 572:11-17; 572:21-573:3.

87. Acknowledgments for these "will advise" entries were issued automatically. Zapf Testimony, 315:3-316:13.

88. LTC kept track of the requests for which "will advise" notations had been made in the bookings system by placing the request on the Orders On Hold Report. Lucey Testimony, 566:19-25. The Orders On Hold Report consisted of a ledger that the Customer Service person used to keep track of the orders. Lucey Testimony, 577:3-17.

89. The "will advise" entry could be deleted from the bookings system by entering the appropriate negative quantity for the same line item. Lucey Testimony, 567:7-10. Once the product was released and a product number was added to the computer system, the order could be formally booked as an order for the specific device on a new line item entry for that customer. Scott Testimony, 512:16-513:10. The product order could not be entered as the same line item as the line item previously occupied by a "will advise" entry, however, it had to be entered as a new line item. Scott Testimony, 514:6-515:5.

90. LTC received requests for LT1070s prior to November 18, 1985. Def. Exh. A-18 [Bookings Report excerpt]; Scott Testimony, 501:3-6; Zapf Testimony, 290:8-18. LTC could not enter those requests into the computer system because the LT1070 was not yet released and the part number was not yet in the computer system's library of part numbers. Scott Testimony, 501:3-502:1. Instead, LTC used "will advise" as an electronic marker or placeholder, to keep track of those orders for LT1070s. Scott Testimony, 501:3-

502:1; Zapf Testimony, 314:15-17. Thus, once the paperwork cleared and the part number was entered into LTC's computerized bookings system, the orders could be booked as orders for the product. Zapf Testimony, 314:18-315:2.

91. For each of these "will advise" transactions, no further communication from the customer was required for LTC to process the order. Zapf Testimony, 31.7:7-11. LTC simply entered the order for LT1070s once the part number had been added to LTC's computerized data base. Zapf Testimony, 317:12-20. Thereafter, LTC shipped LT1070s to fill the orders. Zapf Testimony, 317:21-22.

92. LTC's Bookings Report, excerpted as Exhibit A-18 and summarized in Exhibit A-80, and the testimony of the witnesses at trial established that LTC received four separate requests for LT1070s from international purchasing distributors before November 18, 1985, which LTC tracked under its "will advise" procedure. See Def. Exh. A-80. Specifically:

(a) on or about October 31, 1985, LTC received an order from its international distributor Microlog for 50 LT1070s. LTC entered a "will advise" notation onto its bookings system on that date. LTC subsequently deleted the "will advise" entry and formally booked the Microlog order for 50 LT1070CTs on November 19, 1985. Def. Exh. A-18 at LIN 09674; Zapf Testimony, 305:11-307:3.

(b) LTC also received an order from its international distributor Neye for 50 LT1070s on or before November 6, 1985. LTC entered the order onto LTC's bookings system as a "will advise" entry, specifically listing the quantity as 50, and the price, $ 5.25. Thereafter, on November 19, 1985, LTC deleted the "will advise" notation and entered the order as an order for 50 LT1070s at the price of $ 5.25. Def. Exh. A-18 at LIN 09635-36, Zapf Testimony, 307:20-309:16.

(c) LTC also received an order for LT1070s from international distributor Bacher prior to November 18, 1985.

LTC entered the transaction onto its bookings system under "will advise" on November 12, 1985, deleted the "will advise" entry on November 14, 1985, and entered Bacher's order for 100 LT1070s on November 19, 1985. Def. Exh. A-18 at LIN 19616, Zapf Testimony, 309:19-311:1.

(d) The fourth "will advise" transaction relating to LT1070s occurred with LTC's international distributor Svensk. Svensk placed orders for three types of LT1070s, specifically 200 LT1070CKs, 300 LT1070CTs and 100 LT1070CHVTs. See Def. Exh. A-18. On November 11, 1985, LTC entered these transactions into the bookings system under three separate "will advise" entries with the quantity listed as "1" and with a price of zero. LTC later deleted those three Svensk "will advise" entries on November 14, 1985, using a "-1" quantity entry, and thereafter, LTC booked Svensk's orders for 200 LT1070CKs and 300 LT1070CTs on November 19, 1985, and LTC booked Svensk's third order for 100 LT1070CHVTs on November 21, 1985. Def. Exh. A-18, at LIN 09658; Zapf Testimony, 311:2-314:11; Scott Testimony, 519:2-521:12.

93. No communication was necessary from these customers for LTC to formally enter into the bookings system the orders for LT1070s that it had previously received and tracked as "will advise." Zapf Testimony, 324:21-24.

94. These "will advise" entries also appear in LTC's Sales Order Report. Def. Exh. A-17; Scott Testimony, 534:10-536:5. On the Sales Order Report, the column entitled "SO DT" stands for "Sales Order Date," and the column entitled "REQ DT" stands for "Request Date." Def. Exh. A-17; Scott Testimony, 536:10-23. The Sales Order Date is the date that the sales order entry was made, whereas the Request Date is the date on which a customer or distributor wanted to have the part delivered. Scott Testimony, 536:18-23. Finally, the Sales Order Report

indicates the number of parts which remained "unshipped" at the time of the printout. Scott Testimony, 536:25-537:19.

95. LTC shipped the 200 LT1070CKs to Svensk on December 29, 1985. Scott Testimony, 619:9-20. This shipment, along with a shipment of 200 LT1070s to distributor Amirton on the same date, constituted the first shipments of LT1070s to purchasers. Scott Testimony, 618:10-619:20. The Bookings Report, Exhibit A-18, and the summary of the sales records, Exhibit 210, establish that this December 29, 1985 shipment to Svensk resulted from the same transaction and was part of the same purchase request that LTC originally noted as a "will advise" entry in its bookings system on November 11, 1985.

96. Additionally, LTC received another order for LT1070s prior to November 18, 1985. Specifically, LTC received an order for 50 LT1070s from distributor Jermyn on November 14, 1985. Def. Exh. A-19 [Scott Decl., at ¶ 11]. LTC did not use its "will advise" procedure for this order, however. LTC instead booked the order on November 19, 1985 and acknowledged the order on November 25, 1985. Def. Exh. A-74, Zapf Testimony, 261:18-262:1; 263:23-264:3.

I. LTC's Booking of LT1070 Orders Immediately After The Critical Date

97. Separate and aside from these "will advise" transactions with Microlog, Svensk, Bacher and Neye, and the November 14, 1985 order from Jermyn, LTC also booked orders for nearly 1000 LT1070s in the few days immediately after the critical date. Specifically, on November 19, 1985, LTC booked Amitron's order for 200 LT1070CKs. Zapf Testimony, 321:25-322:2; Def. Exh. A-18 at LIN 09656. On November 20, 1985, LTC booked Henskes' orders for 50 LT1070CKs and 50 LT1070CTs. Zapf Testimony, 320:14-23; Def. Exh. A-18 at LIN 09638. Also on November 20, 1985, LTC booked Success Electric's

order for 100 LT1070CTs. Zapf Testimony, 321:2-7; Def. Exh. A-18 at LIN 09640. On November 22, 1985, LTC booked Metronik's orders for 50 LT1070CKs and 100 LT1070CTs; LTC booked Eltron's orders for 100 LT1070CHVTs and 100 LT1070CTs; and, LTC booked Stolz's orders for 100 LT1070CTs and 100 LT1070CKs. Zapf Testimony, 320:4-13 [Metronik], 321:8-24 [Eltron] and 322:11-18 [Stolz]; Def. ExhA-18 at 09631 [Metronik], 09655 [Eltron], and 09661 [Stolz].

98. In the four days immediately following the critical date, LTC formally booked orders for more than 1,700 LT1070s. To the knowledge of Zapf, no announcement had been made to the sales force or the distributors to inform them that the LT1070 was released on November 18, 1985. Zapf Testimony, 323:24-324:10.

99. Along with the testimony provided during trial in connection with LTC's contention that it restricted access to technical information about the LT1070 prior to November 18, 1985, the court finds that from the fact and timing of the LT1070 bookings in the four days following the critical date that LTC had commercially promoted the LT1070 prior to November 18, 1985.

CONCLUSIONS OF LAW

1. The court has jurisdiction over this action pursuant to 28 U.S.C. section 1338(a). Venue is proper under 28 U.S.C. section 1400(b).

2. Although the court has attempted to avoid commingling findings of fact with conclusions of law, any conclusions that are inadvertently labeled as findings (or *vice versa*) shall be considered "in [their] true light, regardless of the label that the . . . court may have placed on [them]." *Tri-Tron Int'l v. A.A. Velto*, 525 F.2d 432, 435-36 (9th Cir. 1975).

3. A patent is presumed to be valid and one challenging its validity bears the burden of proving invalidity by clear

and convincing evidence. 35 U.S.C. § 282; *Mas-Hamilton Group v. LaGard, Inc.*, 156 F.3d 1206, 1216 (Fed. Cir. 1998).

4. An inventor loses his right to a patent if he has placed his invention "in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States." *Ferag AG v. Quipp Inc.*, 45 F.3d 1562, 1566 (Fed. Cir. 1995), *cert. denied*, 516 U.S. 816 (1995); *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55 (1998); 35 U.S.C. § 102. Section 102(b) is designed in part to prevent "inventors from exploiting the commercial value of their inventions while deferring the beginning of the statutory term." *Ferag AG*, 45 F.3d at 1566.

5. "Whether premature acts to commercially exploit a patented invention render the patent invalid is a question of law based on underlying issues of fact." *Weatherchem Corp. v. J.L. Clark, Inc.*, 163 F.3d 1326, 1331 (Fed. Cir. 1998).

6. The critical date for the purposes of triggering the section 102(b) on-sale bar is defined to be the date "one-year prior to the U.S. filing date to which the application was entitled." *Mas-Hamilton*, 156 F.3d at 1216.

7. Because the patent application was filed on November 18, 1986, the critical date for the purposes of 35 U.S.C. section 102(b) is November 18, 1985.

8. In support of their respective arguments, the parties rely heavily on the "totality of the circumstances" test previously used by the Federal Circuit in determining whether the section 102(b) on-sale bar has been invoked. Under the "totality of the circumstances" test, all of the circumstances surrounding the sale are considered and weighed against the policies underlying the on-sale bar in determining whether a sale or definite offer for sale has been made. See *Evans Cooling Systems, Inc. v. General Motors Corp.*, 125 F.3d 1448, 1450-51 (Fed. Cir. 1997), *cert. denied*, 522 U.S. 1115 (1998); *Ferag AG*, 45 F.3d at 1568

("key question" is "whether, under the totality of circumstances, the inventor placed his invention on sale, objectively manifested by a sale or offer for sale of a product that embodies the invention claimed in the patent"); *Seal-Flex, Inc. v. Athletic Track and Court Constr.*, 98 F.3d 1318, 1322 (Fed. Cir. 1996) (on-sale bar represents "balance of the policies" allowing inventor reasonable amount of time to ascertain commercial value of invention, but requiring prompt entry into the patent system); *In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litig.*, 71 F.3d 1573, 1577 (Fed. Cir. 1995) (listing policies).

9. This line of cases also stood "for the proposition that, even though the technical requirements of a reduction to practice have not been met, a sale or a definite offer to sell a substantially completed invention, with reason to expect that it would work for its intended purpose upon completion, suffices to generate a statutory bar." *Micro Chem. Inc. v. Great Plains Chem. Co., Inc.*, 103 F.3d 1538, 1545 (Fed. Cir.), *cert. denied*, 521 U.S. 1122 (1997) (emphasis added). For example, in *UMC Electronics Co. v. United States*, 816 F.2d 647, 657 (Fed. Cir. 1987), *cert. denied*, 484 U.S. 1025 (1988), the court held that the "prior art devices embodied each element of the claimed invention, save one, and that portion was available and had been sufficiently tested to demonstrate to the satisfaction of the inventor that the invention as ultimately claimed would work for its intended purpose." The invention was "substantially completed and there was reason for a high degree of confidence that it would work for its intended purpose." *Micro Chem.*, 103 F.3d at 1545. In contrast, "if the inventor had merely a conception or was working towards development of that conception, it can be said there is not yet any 'invention' which could be placed on sale." *Id.* (quoting *UMC*, 816 F.2d at 657).

10. Shortly after the parties submitted their post-trial memoranda, the Supreme Court in *Pfaff* rejected the "totality

of the circumstances" and "substantial completion" tests, indicating a preference for "a definite standard for determining when a patent application must be filed." *Pfaff*, 525 U.S. at , 119 S. Ct. at 307; *Brasseler U.S.A. I, L.P. v. Stryker Sales Corp.*, 182 F.3d 888, 1999 U.S. App. LEXIS 15157, 1999 WL 463579, *2 (Fed. Cir., 1999). The inventor in *Pfaff* had shown detailed engineering drawings of his computer chip socket invention to Texas Instruments. In accordance with the inventor's normal practice, he had not made any prototypes before offering his invention for commercial sale. Before the critical date, Texas Instruments provided the inventor with a written order for over 30,000 of his new sockets. Upon receiving Texas Instruments' purchase order, the inventor began to produce the device in commercial quantities. The inventor, however, had not reduced his invention to practice or filled Texas Instruments' order until after the critical date. In light of these facts, the Supreme Court addressed "whether the commercial marketing of a newly invented product may mark the beginning of the 1-year period even though the invention has not yet been reduced to practice." *Pfaff*, 525 U.S. at , 119 S. Ct. at 307.

11. Under the standard enunciated in *Pfaff*, the on-sale bar applies when two conditions are satisfied before the critical date. First, the product must be the subject of a commercial offer for sale more than one year before the application for the subject patent. *Pfaff*, 525 U.S. at , 119 S. Ct. at 311. Second, the invention must be ready for patenting. *Id.* The latter condition may be satisfied in at least two ways: by proof of reduction to practice before the critical date; or by proof that prior to the critical date the inventor had prepared drawings or other descriptions of the invention that were sufficiently specific to enable a person skilled in the art to practice the invention. *Pfaff*, 525 U.S. at , 119 S. Ct. at 312.

12. In this context, the Supreme Court counseled against the multifactor "totality of the circumstances" test in determining the trigger for the on-sale bar, crediting the Federal Circuit for criticizing such a trigger "as unnecessarily vague." *Pfaff*, 525 U.S. at , 119 S. Ct. at 311 n.11 (citing *Seal Flex*, 98 F.3d 1318 at 1323 n.2). Similarly, the Court held that "[a] rule that makes the timeliness of an application depend on the date when an invention is 'substantially complete' seriously undermines the interest in certainty." 525 U.S. at , 119 S. Ct. at 311.

13. The court first addresses the applicability of the second element of the *Pfaff* test: whether the invention embodied in the '741 patent was ready for patenting. "The word 'invention' [in section 102(b)] must refer to a concept that is complete, rather than merely one that is 'substantially complete.' It is true that reduction to practice ordinarily provides the best evidence that an invention is complete. But just because reduction to practice is sufficient evidence of completion, it does not follow that proof of reduction to practice is necessary in every case." *Pfaff*, 119 S. Ct. at 311. In fact, it is immaterial for purposes of the on-sale bar that the device was makeshift. *UMC*, 816 F.2d at 656.

14. In *Pfaff*, the Court held that this second condition was satisfied because the drawings the inventor sent to the manufacturer before the critical date "fully disclosed the invention." 525 U.S. at , 119 S. Ct. 307. In *Weatherchem*, which present facts similar to those found in the instant action, the Federal Circuit held that the second prong of the *Pfaff* test was satisfied because the inventor had prepared detailed drawings of the invention that were sufficiently specific to enable a person skilled in the art to practice the invention, because the manufacturer was able to readily produce samples of the invention from the drawings and specifications, and finally, because the order of a commercial quantity of the invention before the critical date showed the consumer's confidence that the invention was

complete. *Weatherchem*, 163 F.3d at 1333. The court found the invention ready for patenting despite problems in the design at the time the product was offered for sale, noting that all that needed to be done was some "fine tuning" of the invention. *Id.*; see also *STX, Inc. v. Brine, Inc.*, 37 F. Supp. 2d 740, 762-63 (D. Md. 1999) (rejecting argument that invention required "evaluation period" to determine whether invention worked for intended purpose).

15. Because LTC "does not dispute that the invention of the '741 patent was reduced to practice before November 18, 1985," LTC's Post-Trial Proposed Findings of Fact and Concl. of Law, at ¶ 29, the court concludes that the invention was ready for patenting as of November 18, 1985. See *Pfaff*, 525 U.S. at , 119 S. Ct. at 311.

16. Despite LTC's concession, the court nonetheless finds that a functioning version of the LT1070 which incorporated the '741 patent was available prior to the critical date. Although Nelson discovered problems with the design in mid-November, by November 18, 1985, he concluded that those problems could be corrected. LTC shipped several LT1070s to customers without making Nelson's changes, including samples shipped to sales representatives on November 21, 1985 and a shipment of 400 LT1070s to purchasers on December 29, 1985. At least for the claims LTC asserts against Micrel in this litigation, the '741 invention was reduced to practice before the critical date.

17. The court next tackles the closer question of whether LTC made a commercial sale or offer for sale in the United States prior to the critical date. In making this determination, the key question is whether LTC placed the LT1070 on sale, objectively manifested by a sale or offer for sale of a product that embodies the invention claimed in the patent. See *Ferag AG*, 45 F.3d at 1568 (quoting *Envirotech Corp. v. Westech Eng'g Inc.*, 904 F.2d 1571, 1575 (Fed. Cir. 1990)); *Pfaff*, 525 U.S. at , 119 S. Ct. at 311-12 (commercial offer of sale

occurs "when an invention that is ready for patenting is first marketed commercially").

18. First, the fact that a product is sold or offered for sale to an independently controlled distributor does not exempt the transaction from the on-sale bar *In Re Caveney*, 761 F.2d 671, 676 (Fed. Cir. 1985) (citing *General Electric Co. v. United States*, 228 Ct. Cl. 192, 654 F.2d 55, 62 (Ct. Cl. 1981)); see also *Ferag AG*, 45 F.3d at 1567 (transaction between two separate entities, though related, gives rise to on-sale bar). The purchasing public is not limited to the end-users of the product; separate entities such as independently controlled distributors who purchase goods and sell them to end-users are also members of the trade in that product. *Id.*; but see *Jack Winter, Inc. v. Koratron Co., Inc.*, 375 F. Supp. 1, 36-37 (N.D. Cal. 1974*), opinion supplemented*, 409 F. Supp. 1019 (N.D. Cal. 1976) (sales of samples to salesmen or intermediaries within inventor-company's "own distribution system" does not constitute "statutory sale," in the absence of evidence of offers to sell or display of samples to public or customers in the trade). It is clear from the testimony that LTC's distributors purchased devices from LTC through the LTC bookings system and resold those devices to end-user customers. As such, if the court concludes based on clear and convincing evidence that LTC sold or offered to sell the LT1070 to any of its independent sales representatives or distributors or if its independent sales representatives or distributors sold or offered for sale the LT1070 to any end-users prior to the critical date, the on-sale bar will be triggered.

19. A single sale or even a single offer for sale is sufficient to trigger the on-sale bar. *Intel Corp. v. International Trade Commission*, 946 F.2d 821, 830 (Fed. Cir. 1991); *In Re Caveney*, 761 F.2d at 676. "Where there is no sale, a definite offer to sell is an essential requirement of the on-sale bar." *RCA Corp. v. Data General Corp.*, 887

F.2d 1056, 1062 (Fed. Cir. 1989) (citing *UMC*, 816 F.2d at 656).

20. An invalidating "offer to sell" may occur as a result of the "patentee's commercial activity which does not rise to the level of a formal 'offer' under contract law principles." *RCA Corp. v. Data General Corp.*, 887 F.2d 1056, 1062 (Fed. Cir. 1989) (citing *General Elec. Co. v. United States*, 1979 U.S. Ct. Cl. LEXIS 1008, 206 U.S.P.Q. 260, 276-77 (Ct. Cl. Tr. Div. 1979) (analysis of pre-bid activities related to a government contract)). "Even free distribution of a prototype may raise the on-sale bar if it is done to solicit a sale." *Intel*, 946 F.2d at 830 (citing *Stearns v. Beckman Instr., Inc.*, 737 F.2d 1565 (Fed. Cir. 1984)).

21. However, "the requirement of a definite offer excludes merely indefinite or nebulous discussions about a possible sale." *RCA*, 887 F.2d at 1062. "Inferences of a sale or offer to sell, even if likely, are insufficient to meet the clear and convincing burden of proof." *Senior Technologies, Inc. v. R.F. Technologies, Inc.*, 58 F. Supp. 2d 1076, 1999 U.S. Dist. LEXIS 11556, 1999 WL 543721, *15 (D. Neb. 1999) (citing *Intel*, 946 F.2d at 830). Similarly, merely "making preparations for the sale" of a claimed invention does not trigger the on-sale bar without a showing by clear and convincing evidence of a definite offer to sell prior to the critical date. *Id.*

22. Numerous cases have explored the threshold at which efforts at commercialization trigger the on-sale bar. For example, in *Pfaff*, the Court found that the written confirmation by the purchaser, Texas Instrument, of an earlier oral purchase order made it clear that a commercial offer had been made prior to the critical date. 525 U.S. at, 119 S. Ct. at 307, 312; see also *Weatherchem*, 163 F.3d at 1333 (record evidence of a signed purchase agreement before the critical date triggered the on-sale bar). Also, in *STX*, the court noted that prior to the critical date STX's salesperson was "on the road" making sales calls to various

retailers and that STX had published a sales brochure referring "to an alleged 'rumor' that it had gone 'a step further with what promises to be an exciting new stick for next season,' and exhorting the faithful to 'look for it towards the end of summer at your favorite sporting goods store.'" *STX*, 37 F. Supp. 2d at 756-57. In light of a signed purchase agreement and despite STX's assertions that the purchaser's order was "merely a hope" for the delivery of products still under development, the court determined that an offer for sale had occurred. *Id.* at 760-61.

23. In *Sonoscan, Inc. v. Sonotek, Inc.*, 936 F.2d 1261, 1263-64 (Fed. Cir. 1991), the court determined that the on-sale bar had been triggered from evidence of a price quotation prior to the critical date coupled with the admission from Sonoscan's counsel that if an order had been placed pursuant to the price quotation the invention at issue would have been shipped at the quoted price. In doing so, the court noted that the district court's use of evidence concerning an unrelated sale just after the critical date to infer that no major change occurred in the invention between the pre-critical date price quotation and the later sale was proper. *Id.* at 1264.

24. In contrast, in *Intel*, an administrative law judge in earlier agency proceedings determined that the invention at dispute had been reduced to practice, that prior to the critical date Intel had given samples of the product embodying the invention to Intel sales personnel expected to distribute the samples to their customers, and that Intel was seeking a commercial advantage by its distribution of samples before the critical date. *Intel*, 946 F.2d at 830. From these findings, the court concluded that the on-sale bar had not been triggered because it had not been proved by clear and convincing evidence that samples had been given to customers or that an offer to sell had occurred. *Id.*

25. The testimony adduced during the bench trial indicates that LTC engaged in substantial preparatory

activity prior to the formal release of the LT1070 on November 18, 1985, including seeking feedback from its sales representatives and distributors regarding the pricing of the LT1070 and the publication of data sheets and other promotional materials. LTC's activities go beyond the making of mere preparations for the commercialization of the LT1070.

26. LTC's communications with its sales force prior to the critical date clearly indicate that LTC was actively promoting the LT1070 beyond the making of mere preparations for its sale. These communications include the July 1985 sales conference attended by both domestic sales representatives and international distributors, the issuance of the November Newsline promising that the LT1070 will be a "big hit," and seminars conducted by LTC's inventor, Carl Nelson, during which he described the LT1070 directly to end-user customers. See *STX*, 37 F. Supp. 2d at 756-57. Furthermore, although the Salon des Composants trade show and presentations to European distributors in Paris were not sales activities occurring within the United States, they provide evidence of contemporaneous efforts by LTC to market the LT1070 prior to the critical date.

27. LTC also clearly provided its sales force and end-user customers with critical information regarding the LT1070 in order to generate commercial interest in the LT1070 and expected its sales force to discuss the LT1070 and its functions with end-user customers. The testimony established that data sheets and samples were necessary to offer LTC products for sale to customers. Sales personnel at both Gassner & Clark and Rockmore contacted end-user customers and provided them with preliminary LT1070 data sheets in order to seek design-ins for the LT1070. The use of the preliminary data sheets establishes that discussions between LTC sales representatives and end-user customers extended beyond merely nebulous or indefinite discussions about a possible sale. In fact, these discussions resulted in 26

separate requests for LT1070 samples from its domestic and international sales force between July 17, 1985, the date of the sales conference, and the critical date, clearly demonstrating that LTC's sales force was actively promoting the LT1070 to end-user customers. See *Intel*, 946 F.2d at 830.

28. The court also concludes that LTC's sales efforts coupled with the pre-critical date orders by Microlog, Neye and Svensk establish that LTC offered to sell the LT1070 to these European distributors. Although LTC seeks to characterize these orders as conditional upon the formal release of the LT1070 and listing in the bookings system by its marketing department, it is clear that the entry of the orders for the LT1070 into the bookings system constituted a completed sale. According to LTC policy, the purchase orders received from Microlog, Neye and Svensk were entered into LTC's bookings system under a "will advise" procedure instead of being returned or canceled. Although no "acknowledgments" were sent in response to these orders, it is clear that the distributors were not required to do anything further to have their orders filled after the LT1070 was formally released.

29. Despite LTC's strenuous objections to the contrary, it is of little consequence that LTC did not ship samples of the LT1070 or "formally" book orders from its international or domestic distributors or sales representatives until after the critical date. See *Pfaff*, 525 U.S. at , 119 S. Ct. at 307 (inventor had not filled Texas Instruments' order until after the critical date). Moreover, the sheer number of orders booked just after the critical date and the absence of any formal announcement by LTC that the LT1070 had been released until December 1, 1985, add to the evidence that the LT1070 had been offered for sale by LTC prior to the critical date.

30. The court must next address whether the offer for sale occurred in the United States for the purposes of section

102(b). The relevant statute provides in pertinent part that, unlike a disclosure in a printed publication, the on-sale bar applies only to activities that occur in the United States. 35 U.S.C. § 102(b). Thus, whether or not the invention is on sale in a foreign country is irrelevant to whether an on-sale bar may exist. The only relevant inquiry is whether the invention was on sale in the United States.

32. Sales and offers to sell to foreign customers can invalidate a patent if the sale is made in the United States, if the offer is extended from the United States, or if substantial sales activity prefatory to the sale occurs in the United States. *Robbins Co. v. Lawrence Mfg. Co.*, 482 F.2d 426, 434 (9th Cir. 1973) (offer was made from the United States); *Synair Corp. v. American Indus. Tire, Inc.*, 223 U.S.P.Q. 1021, 1022 (S.D. Tex. 1983) (no on-sale bar when all discussions were in Canada); *MDS Assocs. v. United States*, 37 Fed. Cl. 611, 630-31 (Cl. Ct. 1997), *aff'd*, 135 F.3d 778 (Fed. Cir. 1998) (pre-contract negotiations, contract amendment negotiations, construction of components, testing, installation and acceptance took place in the U.S., making the sale "in this country" under Section 102(b)).

33. In the instant action, representatives from Neye, Svensk and Microlog attended the sales conference held by LTC in Santa Clara, California. It was at this sales conference that LTC first initiated its sales efforts of the LT1070 to these distributors. Moreover, the testimony adduced at trial establishes that LTC directed its sales efforts in Europe, including its participation in the Salon des Composants, from its offices located in Milpitas, California. Finally, LTC received and tracked the orders from Neye, Svensk and Microlog from its Milpitas offices. In light of the above, the orders from Neye, Svensk and Microlog constitute sales in the United States that trigger the on-sale bar in part because substantial prefatory activity occurred in the United States.

CONCLUSION

Based on the above findings of fact and conclusions of law, this court holds that Micrel has met its burden to prove by clear and convincing evidence that the LT1070 was on sale prior to the critical date of November 18, 1985, and hereby finds for Micrel on its section 102(b) defense. Accordingly, the '741 patent is invalid.

IT IS SO ORDERED.

MARILYN HALL PATEL
Chief Judge
United States District Court
Northern District of California